

Brookdale Senior Living Inc.  
Form 10-Q  
August 09, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2013

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 of incorporation or organization) (I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer ☒ T

Accelerated filer ☐ £

Non-accelerated filer ☐ £ (Do not check if a smaller reporting company) Smaller reporting company ☐ £

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

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As of August 6, 2013, 124,061,406 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | June 30,<br>2013<br>(Unaudited) | December<br>31,<br>2012 |
|---|---------------------------------|-------------------------|
| Assets  |                                 |                         |
| Current assets  |                                 |                         |
| Cash and cash equivalents   | \$ 30,946                       | \$ 69,240               |
| Cash and escrow deposits — restricted   | 43,559                          | 43,096                  |
| Accounts receivable, net  | 107,139                         | 100,401                 |
| Deferred tax asset  | 13,377                          | 13,377                  |
| Prepaid expenses and other current assets, net  | 88,004                          | 82,924                  |
| Total current assets  | 283,025                         | 309,038                 |
| Property, plant and equipment and leasehold intangibles, net  | 3,855,653                       | 3,879,977               |
| Cash and escrow deposits — restricted   | 59,282                          | 62,767                  |
| Investment in unconsolidated ventures   | 37,606                          | 31,386                  |
| Goodwill  | 109,553                         | 109,553                 |
| Other intangible assets, net  | 159,949                         | 159,942                 |
| Other assets, net   | 125,774                         | 113,315                 |
| Total assets  | \$ 4,630,842                    | \$ 4,665,978            |
| Liabilities and Stockholders' Equity  |                                 |                         |
| Current liabilities   |                                 |                         |
| Current portion of long-term debt   | \$ 69,727                       | \$ 509,543              |
| Trade accounts payable  | 45,361                          | 43,184                  |
| Accrued expenses  | 205,354                         | 200,895                 |
| Refundable entrance fees and deferred revenue   | 370,142                         | 370,755                 |
| Tenant security deposits  | 5,620                           | 6,521                   |
| Total current liabilities   | 696,204                         | 1,130,898               |
| Long-term debt, less current portion  | 2,486,222                       | 2,089,826               |
| Line of credit  | 70,000                          | 80,000                  |
| Deferred entrance fee revenue   | 83,102                          | 79,010                  |
| Deferred liabilities  | 150,034                         | 150,788                 |
| Deferred tax liability  | 96,187                          | 96,187                  |
| Other liabilities   | 38,961                          | 42,283                  |
| Total liabilities   | 3,620,710                       | 3,668,992               |
| Stockholders' Equity  |                                 |                         |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized at June 30, 2013 and December 31, 2012; no shares issued and outstanding                            | —                               | —                       |
| Common stock, \$0.01 par value, 200,000,000 shares authorized at June 30, 2013 and December 31, 2012; 130,066,055 and 129,117,946 shares issued and 127,638,057 and | 1,276                           | 1,267                   |

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126,689,545 shares outstanding (including 3,576,939 and 3,951,950 unvested restricted shares), respectively

|  |             |             |
|--|-------------|-------------|
| Additional paid-in-capital   | 2,012,725   | 1,997,946   |
| Treasury stock, at cost; 2,428,401 shares at June 30, 2013 and December 31, 2012 | (46,800 )   | (46,800 )   |
| Accumulated deficit  | (957,069 )  | (955,427 )  |
| Total stockholders' equity   | 1,010,132   | 996,986     |
| Total liabilities and stockholders' equity                                       | \$4,630,842 | \$4,665,978 |

See accompanying notes to condensed consolidated financial statements.

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## BROOKDALE SENIOR LIVING INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

|   | Three Months Ended<br>June 30, |             | Six Months Ended June<br>30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2013                           | 2012        | 2013                         | 2012        |
| Revenue   |                                |             |                              |             |
| Resident fees   | \$620,938                      | \$602,050   | \$1,245,308                  | \$1,198,599 |
| Management fees   | 7,744                          | 7,499       | 15,353                       | 14,943      |
| Reimbursed costs incurred on behalf of managed communities  | 87,786                         | 80,924      | 168,073                      | 159,639     |
| Total revenue   | 716,468                        | 690,473     | 1,428,734                    | 1,373,181   |
| Expense   |                                |             |                              |             |
| Facility operating expense (excluding depreciation and amortization of \$59,444, \$58,090, \$116,699 and \$116,026, respectively)                 | 416,027                        | 403,515     | 829,030                      | 802,284     |
| General and administrative expense (including non-cash stock-based compensation expense of \$6,988, \$6,729, \$13,882 and \$13,164, respectively) | 46,035                         | 46,071      | 92,646                       | 91,044      |
| Facility lease expense  | 68,777                         | 70,628      | 137,796                      | 142,073     |
| Depreciation and amortization   | 67,254                         | 63,561      | 131,913                      | 126,905     |
| Asset impairment  | 2,154                          | 7,246       | 2,154                        | 8,329       |
| Loss on acquisition   | —                              | —           | —                            | 636         |
| Gain on facility lease termination  | —                              | —           | —                            | (2,780 )    |
| Costs incurred on behalf of managed communities   | 87,786                         | 80,924      | 168,073                      | 159,639     |
| Total operating expense   | 688,033                        | 671,945     | 1,361,612                    | 1,328,130   |
| Income from operations  | 28,435                         | 18,528      | 67,122                       | 45,051      |
| Interest income   | 252                            | 692         | 555                          | 1,544       |
| Interest expense:   |                                |             |                              |             |
| Debt  | (29,843 )                      | (32,431 )   | (60,814 )                    | (64,481 )   |
| Amortization of deferred financing costs and debt discount  | (4,348 )                       | (4,586 )    | (8,917 )                     | (9,059 )    |
| Change in fair value of derivatives and amortization  | 1,836                          | (278 )      | 1,971                        | (511 )      |
| Loss on extinguishment of debt  | (893 )                         | —           | (893 )                       | (221 )      |
| Equity in earnings (loss) of unconsolidated ventures  | 445                            | (61 )       | 560                          | 38          |
| Other non-operating income (loss)   | 80                             | 3           | 1,086                        | (108 )      |
| (Loss) income before income taxes   | (4,036 )                       | (18,133 )   | 670                          | (27,747 )   |
| Provision for income taxes  | (1,164 )                       | (882 )      | (2,312 )                     | (1,812 )    |
| Net loss  | \$(5,200 )                     | \$(19,015 ) | \$(1,642 )                   | \$(29,559 ) |
| Basic and diluted net loss per share  | \$(0.04 )                      | \$(0.16 )   | \$(0.01 )                    | \$(0.24 )   |
| Weighted average shares used in computing basic and diluted net loss per share  | 123,405                        | 121,708     | 123,114                      | 121,426     |

See accompanying notes to condensed consolidated financial statements.

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BROOKDALE SENIOR LIVING INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

|  | Three Months<br>Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|-----------------------------------|------------|------------------------------|------------|
|  | 2013                              | 2012       | 2013                         | 2012       |
| Net loss   | \$(5,200)                         | \$(19,015) | \$(1,642)                    | \$(29,559) |
| Other comprehensive (loss) income:                           |                                   |            |                              |            |
| Unrealized (loss) gain on marketable securities - restricted | —                                 | (200 )     | —                            | 838        |
| Other  | —                                 | 52         | —                            | 61         |
| Total other comprehensive (loss) income, net of tax          | —                                 | (148 )     | —                            | 899        |
| Comprehensive loss   | \$(5,200)                         | \$(19,163) | \$(1,642)                    | \$(28,660) |

See accompanying notes to condensed consolidated financial statements.

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## BROOKDALE SENIOR LIVING INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited, in thousands)

|  | Common Stock |          | Additional      | Treasury   | Accumulated  |                |
|--|--------------|----------|-----------------|------------|--------------|----------------|
|  | Shares       | Amount   | Paid-In-Capital | Stock      | Deficit      | Total          |
| Balances at January 1, 2013 as previously reported           | 126,689      | \$ 1,267 | \$ 1,997,946    | \$(46,800) | \$ (949,696) | ) \$ 1,002,717 |
| Retrospective adjustment for adoption of accounting policy   |              |          |                 |            | (5,731)      | ) (5,731)      |
| Balances at January 1, 2013 as adjusted                      | 126,689      | 1,267    | 1,997,946       | (46,800)   | (955,427)    | ) 996,986      |
| Compensation expense related to restricted stock grants      |              |          | 13,882          |            |              | 13,882         |
| Net loss   |              |          |                 |            | (1,642)      | ) (1,642)      |
| Issuance of common stock under Associate Stock Purchase Plan | 31           |          | 744             |            |              | 744            |
| Restricted stock, net  | 918          | 9        |                 |            |              | 9              |
| Other  |              |          | 153             |            |              | 153            |
| Balances at June 30, 2013                                    | 127,638      | \$ 1,276 | \$ 2,012,725    | \$(46,800) | \$ (957,069) | ) \$ 1,010,132 |

See accompanying notes to condensed consolidated financial statements.

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## BROOKDALE SENIOR LIVING INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

|  | Six Months Ended<br>June 30, |             |
|--|------------------------------|-------------|
|  | 2013                         | 2012        |
| Cash Flows from Operating Activities   |                              |             |
| Net loss   | \$(1,642 )                   | \$(29,559 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities:  |                              |             |
| Loss on extinguishment of debt   | 893                          | 221         |
| Depreciation and amortization  | 140,830                      | 135,964     |
| Asset impairment   | 2,154                        | 8,329       |
| Equity in earnings of unconsolidated ventures                                    | (560 )                       | (38 )       |
| Distributions from unconsolidated ventures from cumulative share of net earnings | 1,441                        | 1,015       |
| Amortization of deferred gain  | (2,186 )                     | (2,186 )    |
| Amortization of entrance fees  | (14,165 )                    | (12,376 )   |
| Proceeds from deferred entrance fee revenue                                      | 21,361                       | 17,377      |
| Deferred income tax benefit  |                              | (304 )      |
| Change in deferred lease liability   | 1,432                        | 3,206       |
| Change in fair value of derivatives and amortization                             | (1,971 )                     | 511         |
| (Gain) loss on sale of assets  | (902 )                       | 172         |
| Loss on acquisition  |                              | 636         |
| Gain on facility lease termination   |                              | (2,780 )    |
| Non-cash stock-based compensation  | 13,882                       | 13,164      |
| Changes in operating assets and liabilities:                                     |                              |             |
| Accounts receivable, net   | (7,328 )                     | (8,801 )    |
| Prepaid expenses and other assets, net   | (3,539 )                     | 4,446       |
| Accounts payable and accrued expenses  | 2,055                        | (7,800 )    |
| Tenant refundable fees and security deposits                                     | (593 )                       | (1,117 )    |
| Deferred revenue   | (6,334 )                     | 8,467       |
| Net cash provided by operating activities  | 144,828                      | 128,547     |
| Cash Flows from Investing Activities   |                              |             |
| Increase in lease security deposits and lease acquisition deposits, net          | (3,018 )                     | (6,336 )    |
| Decrease in cash and escrow deposits — restricted                                | 3,021                        | 5,404       |
| Purchase of marketable securities — restricted                                   |                              | (400 )      |
| Additions to property, plant and equipment and leasehold intangibles, net        | (100,291 )                   | (91,966 )   |
| Acquisition of assets, net of related payables and cash received                 | (4,835 )                     | (109,959 )  |
| Issuance of notes receivable, net  | (64 )                        | (439 )      |
| Investment in unconsolidated ventures  | (7,992 )                     | (571 )      |
| Distributions received from unconsolidated ventures                              |                              | 184         |
| Proceeds from sale of assets, net  | 7,554                        | 325         |
| Other  |                              | (702 )      |
| Net cash used in investing activities  | (105,625 )                   | (204,460 )  |
| Cash Flows from Financing Activities   |                              |             |
| Proceeds from debt   | 427,622                      | 193,016     |

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|   |           |           |
|---|-----------|-----------|
| Repayment of debt and capital lease obligations         | (488,532) | (118,653) |
| Proceeds from line of credit                            | 190,000   | 205,000   |
| Repayment of line of credit                             | (200,000) | (195,000) |
| Payment of financing costs, net of related payables     | (7,895 )  | (2,714 )  |
| Refundable entrance fees:                               |           |           |
| Proceeds from refundable entrance fees                  | 19,390    | 17,306    |
| Refunds of entrance fees                                | (16,776 ) | (13,531 ) |
| Cash portion of loss on extinguishment of debt          | (453 )    | (118 )    |
| Purchase of derivatives and payment of swap termination | (1,489 )  | (1,289 )  |
| Other   | 636       | (264 )    |
| Net cash (used in) provided by financing activities     | (77,497 ) | 83,753    |
| Net (decrease) increase in cash and cash equivalents    | (38,294 ) | 7,840     |
| Cash and cash equivalents at beginning of period        | 69,240    | 30,836    |
| Cash and cash equivalents at end of period              | \$30,946  | \$38,676  |

See accompanying notes to condensed consolidated financial statements.

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### BROOKDALE SENIOR LIVING INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 1. Description of Business

Brookdale Senior Living Inc. ("Brookdale" or the "Company") is a leading owner and operator of senior living communities throughout the United States. The Company provides an exceptional living experience through properties that are designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Company owns, leases and operates retirement centers, assisted living and dementia-care communities and continuing care retirement centers ("CCRCs"). Through its Innovative Senior Care ("ISC") program, the Company also offers a range of outpatient therapy, home health and hospice services, primarily to residents of its communities.

#### 2. Summary of Significant Accounting Policies

##### Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of June 30, 2013, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management's discussion and analysis of financial condition and results of operations, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission.

##### Revenue Recognition

##### Resident Fees

Resident fee revenue is recorded when services are rendered and consists of fees for basic housing, support services and fees associated with additional services such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenue for certain skilled nursing services and ancillary charges is recognized as services are provided and is billed monthly in arrears.

##### Entrance Fees

Certain of the Company's communities have residency agreements which require the resident to pay an upfront entrance fee prior to occupying the community. In addition, in connection with the Company's MyChoice program, new and existing residents are allowed to pay additional entrance fee amounts in return for a reduced monthly service fee. The non-refundable portion of the entrance fee is recorded as deferred entrance fee revenue and amortized over

the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the sale of the unit, or in certain agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. In such instances the refundable portion of the fee is not amortized and included in refundable entrance fees and deferred revenue. All refundable amounts due to residents at any time in the future are classified as current liabilities.

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### Management Fees

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

### Reimbursed Costs Incurred on Behalf of Managed Communities

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

### Fair Value of Financial Instruments

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

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

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

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

Cash and cash equivalents and cash and escrow deposits-restricted are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness.

The Company had outstanding debt with a carrying value and estimated fair value of approximately \$2.6 billion and \$2.7 billion as of June 30, 2013 and December 31, 2012, respectively. The Company's fair value of debt disclosure is classified within Level 2 of the valuation hierarchy.

### Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased and managed communities under a master insurance program, the Company's current policies provide for deductibles for each and every claim. As a result, the Company is, in effect, self-insured for claims that are less than the deductible amounts. In addition, the Company maintains a large-deductible workers compensation program and a self-insured employee medical program. The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third party administrator estimates, consultants,

advice from legal counsel and industry data, and adjusts accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.



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## Cumulative Effect Adjustment

In July 2012, the FASB issued ASU 2012-01, Continuing Care Retirement Communities — Refundable Advance Fees ("ASU 2012-01"). ASU 2012-01 amends the situations in which recognition of deferred revenue for refundable advance fees is appropriate. Under this amendment, refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The guidance in ASU 2012-01 is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted the provisions of this update as of January 1, 2013 and incorporated the provisions of this update to its consolidated financial statements through retrospective application to all periods presented and a cumulative effect adjustment to the Company's accumulated deficit as of January 1, 2013.

The effect of this change in accounting was not material to the consolidated results of operations or financial position for any period, including the three and six months ended June 30, 2013 and 2012, and did not impact cash flows from operations in any period. The Company increased its accumulated deficit by \$5.7 million to reflect the net cumulative effect of the adoption of ASU 2012-01.

The related adjustments will be made to the applicable prior periods as such financial information is included in future filings with the SEC, but no later than the filing of the Company's Annual Report on Form 10-K for the year ending December 31, 2013. The impact of all adjustments made to the prior annual consolidated financial statements is summarized as follows (dollars in thousands):

|   | As of and for the Year Ended<br>December 31, 2012 |             |                |
|---|---|-------------|----------------|
|   | As<br>Reported                                    | Adjustment  | As<br>Adjusted |
| Consolidated Balance Sheets                   |   |             |                |
| Refundable entrance fees and deferred revenue | \$361,360   | \$ 9,395    | \$370,755      |
| Deferred tax liability                        | 99,851  | (3,664 )    | 96,187         |
| Accumulated deficit                           | (949,696 )  | (5,731 )    | (955,427 )     |
| Consolidated Statements of Operations         |   |             |                |
| Resident fees                                 | \$2,414,283                                       | \$ (1,347 ) | \$2,412,936    |
| Total revenue                                 | 2,770,085   | (1,347 )    | 2,768,738      |
| Loss before income taxes                      | (63,601 )   | (1,347 )    | (64,948 )      |
| Provision for income taxes                    | (2,044 )  | 525         | (1,519 )       |
| Net loss                                      | (65,645 )   | (822 )      | (66,467 )      |
| Basic and diluted net loss per share          | (0.54 )   | —           | (0.54 )        |
| Consolidated Statements of Cash Flows         |   |             |                |
| Net loss                                      | \$(65,645 )                                       | \$ (822 )   | \$(66,467 )    |
| Amortization of entrance fees                 | (26,709 )   | 1,347       | (25,362 )      |
| Deferred income tax benefit                   | —   | (525 )      | (525 )         |

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|                                       | Year Ended December 31, 2011 |             |             |
|---------------------------------------|------------------------------|-------------|-------------|
|                                       | As                           |             | As          |
|                                       | Reported                     | Adjustment  | Adjusted    |
| Consolidated Statements of Operations |                              |             |             |
| Resident fees                         | \$2,291,757                  | \$ (1,435 ) | \$2,290,322 |
| Total revenue                         | 2,457,918                    | (1,435 )    | 2,456,483   |
| Loss before income taxes              | (65,835 )                    | (1,435 )    | (67,270 )   |
| Provision for income taxes            | (2,340 )                     | 560         | (1,780 )    |
| Net loss                              | (68,175 )                    | (875 )      | (69,050 )   |
| Basic and diluted net loss per share  | (0.56 )                      | (0.01 )     | (0.57 )     |
| Consolidated Statements of Cash Flows |                              |             |             |
| Net loss                              | \$(68,175 )                  | \$ (875 )   | \$(69,050 ) |
| Amortization of entrance fees         | (25,401 )                    | 1,435       | (23,966 )   |
| Deferred income tax provision         | 943                          | (560 )      | 383         |

The prior period financial statements included in this filing have been revised to reflect this change in accounting, the effects of which have been summarized below (dollars in thousands):

|   | Three Months Ended June 30, 2012 |            |           |
|---|----------------------------------|------------|-----------|
|   | As                               |            | As        |
|   | Reported                         | Adjustment | Adjusted  |
| Condensed Consolidated Statements of Operations |                                  |            |           |
| Resident fees                                   | \$602,387                        | \$ (337 )  | \$602,050 |
| Total revenue                                   | 690,810                          | (337 )     | 690,473   |
| Loss before income taxes                        | (17,796 )                        | (337 )     | (18,133 ) |
| Provision for income taxes                      | (1,014 )                         | 132        | (882 )    |
| Net loss  | (18,810 )                        | (205 )     | (19,015 ) |
| Basic and diluted net loss per share            | (0.15 )                          | (0.01 )    | (0.16 )   |

|   | Six Months Ended June 30, 2012 |            |             |
|---|--------------------------------|------------|-------------|
|   | As                             |            | As          |
|   | Reported                       | Adjustment | Adjusted    |
| Condensed Consolidated Statements of Operations |                                |            |             |
| Resident fees                                   | \$1,199,273                    | \$ (674 )  | \$1,198,599 |
| Total revenue                                   | 1,373,855                      | (674 )     | 1,373,181   |
| Loss before income taxes                        | (27,073 )                      | (674 )     | (27,747 )   |
| Provision for income taxes                      | (2,075 )                       | 263        | (1,812 )    |
| Net loss  | (29,148 )                      | (411 )     | (29,559 )   |
| Basic and diluted net loss per share            | (0.24 )                        | -          | (0.24 )     |
| Condensed Consolidated Statements of Cash Flows |                                |            |             |
| Net loss  | \$(29,148 )                    | \$ (411 )  | \$(29,559 ) |
| Amortization of entrance fees                   | (13,050 )                      | 674        | (12,376 )   |
| Deferred income tax benefit                     | (41 )                          | (263 )     | (304 )      |



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### Reclassifications

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

### 3. Earnings Per Share

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

During the three and six months ended June 30, 2013 and 2012, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock and restricted stock unit awards and convertible debt instruments and warrants were anti-dilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit awards excluded from the calculations of diluted net loss per share were 4.3 million and 4.9 million for the three months ended June 30, 2013 and 2012, respectively, and 4.4 million and 4.9 million for the six months ended June 30, 2013 and 2012, respectively.

### 4. Acquisitions and Dispositions

Effective May 24, 2013, the Company acquired the underlying real estate interest in an entrance fee CCRC that the Company previously managed for an aggregate purchase price of \$15.4 million, which included the assumption of the existing mortgage debt and certain liabilities in addition to cash paid. The Company will continue to manage the CCRC and report the results of operations of such community in the Management Services segment until necessary license approvals are obtained.

Effective May 31, 2013, the Company purchased the underlying real estate in an assisted living community for an aggregate purchase price of \$2.4 million. The results of operations of the community will be reported in the Assisted Living segment.

During the six months ended June 30, 2013, the Company purchased one home health agency for an aggregate purchase price of approximately \$1.4 million. The purchase price of the acquisition has been ascribed to an indefinite useful life intangible asset and recorded on the condensed consolidated balance sheet under other intangible assets, net.

During the six months ended June 30, 2013, the Company sold two communities for an aggregate selling price of \$7.2 million. The results of operations of the communities were previously reported in the Assisted Living segment.

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## 5. Stock-Based Compensation

The Company follows ASC 718 in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred.

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

The Company's compensation expense recorded in connection with grants of restricted stock for the three and six months ended June 30, 2013 and 2012 reflects an initial estimated cumulative forfeiture rate from 0% to 10% over the requisite service period of the awards. That estimate is revised if subsequent information indicates that the actual number of awards expected to vest is likely to differ from previous estimates.

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

|                                   | Shares<br>Granted | Value Per Share   | Total Value |
|-----------------------------------|-------------------|-------------------|-------------|
| Three months ended March 31, 2013 | 1,036             | \$25.32 – \$27.36 | \$ 27,858   |
| Three months ended June 30, 2013  | 156               | \$26.85 – \$27.50 | \$ 4,216    |

## 6. Goodwill and Other Intangible Assets, Net

The following is a summary of the carrying amount of goodwill for the six months ended June 30, 2013 and the year ended December 31, 2012 presented on an operating segment basis (dollars in thousands):

|                    | June 30, 2013               |   |             | December 31, 2012           |   |             |
|--------------------|-----------------------------|---|-------------|-----------------------------|---|-------------|
|                    | Gross<br>Carrying<br>Amount | Accumulated<br>Impairment<br>and Other<br>Charges | Net         | Gross<br>Carrying<br>Amount | Accumulated<br>Impairment<br>and Other<br>Charges | Net         |
| Retirement Centers | \$7,642                     | \$ (521)  | ) \$7,121   | \$7,642                     | \$ (521)  | ) \$7,121   |
| Assisted Living    | 102,680                     | (248)   | ) 102,432   | 102,680                     | (248)   | ) 102,432   |
| CCRCs - Rental     | 56,281                      | (56,281)  | ) —         | 56,281                      | (56,281)  | ) —         |
| CCRCs - Entry Fee  | 158,718                     | (158,718)   | ) —         | 158,718                     | (158,718)   | ) —         |
| Total              | \$325,321                   | \$ (215,768)                                      | ) \$109,553 | \$325,321                   | \$ (215,768)                                      | ) \$109,553 |

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. No indicators of impairment were present during the six months ended June 30, 2013.

Community purchase options are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. No indicators of impairment were present during the six months ended June 30, 2013. The following is a summary of other intangible assets at June 30, 2013 and December 31, 2012 (dollars in thousands):

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|                            | June 30, 2013 |              |           | December 31, 2012 |              |           |
|----------------------------|---------------|--------------|-----------|-------------------|--------------|-----------|
|                            | Gross         |              |           | Gross             |              |           |
|                            | Carrying      | Accumulated  |           | Carrying          | Accumulated  |           |
|                            | Amount        | Amortization | Net       | Amount            | Amortization | Net       |
| Community purchase options | \$147,610     | \$ (23,112 ) | \$124,498 | \$147,610         | \$ (21,263 ) | \$126,347 |
| Health care licenses       | 32,643        | —            | 32,643    | 31,082            | —            | 31,082    |
| Other                      | 3,330         | (522 )       | 2,808     | 2,585             | (72 )        | 2,513     |
| Total                      | \$183,583     | \$ (23,634 ) | \$159,949 | \$181,277         | \$ (21,335 ) | \$159,942 |

Amortization expense related to definite-lived intangible assets for the three months ended June 30, 2013 and 2012 was \$1.2 million and \$0.9 million, respectively, and for the six months ended June 30, 2013 and 2012 was \$2.3 million and \$1.8 million, respectively. Health care licenses were determined to be indefinite-lived intangible assets and are not subject to amortization.

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

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

|  | June 30,<br>2013 | December<br>31,<br>2012 |
|--|------------------|-------------------------|
| Land   | \$298,260        | \$296,314               |
| Buildings and improvements                                   | 3,434,525        | 3,391,667               |
| Leasehold improvements                                       | 69,434           | 60,186                  |
| Furniture and equipment                                      | 584,640          | 541,585                 |
| Resident and leasehold operating intangibles                 | 441,657          | 441,603                 |
| Construction in progress                                     | 71,892           | 75,419                  |
| Assets under capital and financing leases                    | 682,015          | 674,492                 |
|  | 5,582,423        | 5,481,266               |
| Accumulated depreciation and amortization                    | (1,726,770)      | (1,601,289)             |
| Property, plant and equipment and leasehold intangibles, net | \$3,855,653      | \$3,879,977             |

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise.

During the three and six months ended June 30, 2013, there were indicators of impairment on certain long-lived assets. The Company compared the estimated fair value of the assets to their carrying values and recorded an impairment charge for the excess of carrying value over fair value. A non-cash charge of \$2.2 million within the CCRCs - Rental segment was recorded in the Company's operating results and reflected as asset impairment in the accompanying condensed consolidated statement of operations. The impairment charges are primarily due to the amount by which the carrying values of the assets exceed the fair value of the estimated selling price.

#### 8. Debt

Long-Term Debt, Capital Leases and Financing Obligations

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

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|  | June 30,<br>2013 | December<br>31,<br>2012 |
|--|------------------|-------------------------|
| Mortgage notes payable due 2014 through 2023; weighted average interest rate of 4.22% for the six months ended June 30, 2013, net of debt discount of \$0.2 million (weighted average interest rate of 4.62% in 2012)                                    | \$1,832,236      | \$1,701,515             |
| \$150,000 Series A notes payable, secured by five communities and by a \$3.0 million cash collateral deposit, bearing interest at LIBOR plus 0.88%, payable in monthly installments of principal and interest through maturity in August 2013            | 142,240          | 144,384                 |
| Discount mortgage note payable due June 2013, net of debt discount of \$1.0 million in 2012 (weighted average interest rate of 2.56% in 2012)  | —                | 80,533                  |
| Variable rate tax-exempt bonds credit-enhanced by Fannie Mae; (weighted average interest rate of 1.65% in 2012), due 2032, payable in monthly installments of principal and interest through maturity, secured by the underlying assets of the portfolio | —                | 99,847                  |
| Capital and financing lease obligations payable through 2026; weighted average interest rate of 8.15% for the six months ended June 30, 2013 (weighted average interest rate of 8.16% in 2012)   | 306,382          | 319,745                 |
| Convertible notes payable in aggregate principal amount of \$316.3 million, less debt discount of \$60.0 million and \$65.0 million in 2013 and 2012, respectively, interest at 2.75% per annum, due June 2018   | 256,284          | 251,312                 |
| Construction financing due 2017 through 2024; weighted average interest rate of 8.0% for the six months ended June 30, 2013 (weighted average interest rate of 8.0% in 2012)   | 6,499            | 1,280                   |
| Notes payable issued to finance insurance premiums, weighted average interest rate of 2.66% for the six months ended June 30, 2013 (weighted average interest rate of 2.81% in 2012), due 2014   | 12,308           | 753                     |
| Total debt   | 2,555,949        | 2,599,369               |
| Less current portion   | 69,727           | 509,543                 |
| Total long-term debt   | \$2,486,222      | \$2,089,826             |

Credit Facilities

On March 28, 2013, the Company entered into a second amended and restated credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated in its entirety the Company's existing amended and restated credit agreement dated as of January 31, 2011, as previously amended. The amended credit agreement extended the maturity date of the facility to March 31, 2018 and decreased the interest rate payable on advances and the fee payable on the unused portion of the facility. The amended credit agreement also provides options to increase the committed

amount initially from \$230.0 million to \$250.0 million, which the Company exercised on June 28, 2013, and thereafter from \$250.0 million to up to \$350.0 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The amended credit agreement now also permits reduction of the committed amount or termination of the facility during the last two years of the five year term without payment of a premium or penalty.

Amounts drawn under the facility bear interest at 90-day LIBOR plus an applicable margin. The applicable margin varies with the percentage of the total commitment drawn, with a 3.25% margin at 25% or lower utilization, a 3.75% margin at utilization greater than 25% but less than or equal to 50%, and a 4.25% margin at greater than 50% utilization. For purposes of determining the interest rate, in no event will LIBOR be less than 0.5% per annum. The

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Company is also required to pay a quarterly commitment fee of 0.5% per annum on the unused portion of the facility.

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

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

The amended credit agreement contains 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 result in a default under the amended credit agreement, which would result in termination of all commitments under the amended credit agreement and all amounts owing under the amended credit agreement and certain other loan agreements becoming immediately due and payable.

As of June 30, 2013, the Company had an available secured line of credit with a \$250.0 million commitment and \$225.3 million of availability (of which \$70.0 million had been drawn as of such date). The Company also had secured and unsecured letter of credit facilities of up to \$92.5 million in the aggregate as of June 30, 2013. Letters of credit totaling \$75.0 million had been issued under these facilities as of that date.

### Financings

On April 3, 2013, the Company obtained a \$25.0 million first mortgage loan, secured by the underlying community. The loan bears interest at a variable rate equal to 30-day LIBOR plus a margin of 275 basis points and matures in April 2018. In connection with the transaction, the Company repaid \$29.0 million of existing variable rate debt.

On April 12, 2013, the Company obtained \$259.0 million in loans secured by first mortgages on 23 communities. The loans bear interest at a variable rate equal to 30-day LIBOR plus a margin of 246 basis points. Concurrent with the closing of the loans, the Company entered into a five-year interest rate cap agreement that caps the interest rate on the loans at 5.03%. The loans mature in May 2023 and require amortization of principal over a 30 year period. Proceeds of the loans, together with cash on hand, were used to refinance or repay a total of \$275.2 million of mortgage debt which was scheduled to mature in May 2013 and July 2013 and variable rate tax-exempt bonds scheduled to mature in 2032.

On April 22, 2013, the Company obtained a \$28.0 million first mortgage loan, secured by two communities. The loan bears interest at a variable rate equal to 30-day LIBOR plus a margin of 275 basis points and matures in April 2018. In connection with the transaction, the Company repaid \$35.1 million of existing variable rate debt.

On May 30, 2013, the Company obtained an \$84.1 million first mortgage loan secured by eight of the Company's communities. The loan has a ten-year term and bears interest at a variable rate equal to 30-day LIBOR plus a margin of 289 basis points. Concurrent with the closing of the loan, the Company entered into a five-year interest rate cap agreement that caps the interest rate on the loan at 4.68%. Proceeds of the loan, together with cash on hand, were used to refinance or repay \$100.9 million of mortgage debt that was scheduled to mature between 2013 and 2017.

On August 1, 2013, the Company obtained \$172.1 million in loans secured by first mortgages on four communities. The loans bear interest at a variable rate equal to 30-day LIBOR plus a margin ranging from 226 to 288 basis points. The loans mature in August 2020 (\$75.0 million) and August 2023 (\$97.1 million) and require amortization of principal over a 30 year period. Proceeds of the loans were used to refinance a total of \$142.0 million of Series A

notes payable which were scheduled to mature on August 1, 2013.

As of June 30, 2013, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

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## 9. Litigation

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

## 10. Supplemental Disclosure of Cash Flow Information

| (dollars in thousands):  | Six Months Ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
|  | 2013             | 2012      |
| Supplemental Disclosure of Cash Flow Information:                                |                  |           |
| Interest paid  | \$62,293         | \$65,427  |
| Income taxes paid  | \$1,834          | \$1,650   |
| Write-off of deferred costs  | \$440            | \$744     |
| Supplemental Schedule of Non-cash Operating, Investing and Financing Activities: |                  |           |
| Acquisition of assets, net of related payables and cash received:                |                  |           |
| Cash and escrow deposits-restricted  | \$—              | \$3,313   |
| Prepaid expenses and other current assets  | (1,326 )         | (2,817 )  |
| Property, plant and equipment and leasehold intangibles, net                     | 17,157           | 123,450   |
| Other intangible assets, net   | 2,306            | 6,494     |
| Other assets, net  | 409              | (7,327 )  |
| Accrued expenses   | (3,866 )         | (489 )    |
| Other liabilities  | —                | 2,335     |
| Long-term debt   | (9,845 )         | (15,000 ) |
| Net  | \$4,835          | \$109,959 |

## 11. Facility Operating Leases

The following table provides a summary of facility lease expense and the impact of straight-line adjustment and amortization of deferred gains (dollars in thousands):

|                               | Three Months |          | Six Months Ended |           |
|-------------------------------|--------------|----------|------------------|-----------|
|                               | Ended        |          | June 30,         |           |
|                               | June 30,     |          | June 30,         |           |
|                               | 2013         | 2012     | 2013             | 2012      |
| Cash basis payment            | \$69,186     | \$70,157 | \$138,550        | \$141,053 |
| Straight-line expense         | 684          | 1,564    | 1,432            | 3,206     |
| Amortization of deferred gain | (1,093 )     | (1,093 ) | (2,186 )         | (2,186 )  |
| Facility lease expense        | \$68,777     | \$70,628 | \$137,796        | \$142,073 |

## 12. Income Taxes

The Company's effective tax rates for the three months ended June 30, 2013 and 2012 were (28.8%) and (4.9%), respectively, and for the six months ended June 30, 2013 and 2012 were 345.1% and (6.5%), respectively. The difference in the effective rates for both the three months and six months ended June 30, 2013 and 2012 was due to

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the impact of the Company's improved financial results under generally accepted accounting principles. The Company's tax expense mainly reflects its cash tax position for states that do not allow for or have suspended the use of net operating losses for the period.

The Company recorded additional interest charges related to its tax contingency reserve for the six months ended June 30, 2013. Tax returns for years 2008 through 2011 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.

### 13. Segment Information

The Company currently has six reportable segments: retirement centers; assisted living; CCRCs – rental; CCRCs – entry fee; ISC; and management services. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

**Retirement Centers.** The Company's Retirement Centers segment includes owned or leased communities that are primarily designed for middle to upper income senior citizens age 75 and older who desire an upscale residential environment providing the highest quality of service. The majority of the Company's retirement center communities consist of both independent living and assisted living units in a single community, which allows residents to "age-in-place" by providing them with a continuum of senior independent and assisted living services.

**Assisted Living.** The Company's Assisted Living segment includes owned or leased communities that offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. Assisted living communities include both freestanding, multi-story communities and freestanding single story communities. The Company also operates memory care communities, which are freestanding assisted living communities specially designed for residents with Alzheimer's disease and other dementias.

**CCRCs - Rental.** The Company's CCRCs - Rental segment includes large owned or leased communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care/Alzheimer's units.

**CCRCs - Entry Fee.** The communities in the Company's CCRCs - Entry Fee segment are similar to those in the Company's CCRCs - Rental segment but allow for residents in the independent living apartment units to pay a one-time upfront entrance fee, which is partially refundable in certain circumstances. The amount of the entrance fee varies depending upon the type and size of the dwelling unit, the type of contract plan selected, whether the contract contains a lifecare benefit for the resident, the amount and timing of refund, and other variables. In addition to the initial entrance fee, residents under all entrance fee agreements also pay a monthly service fee, which entitles them to the use of certain amenities and services. Since entrance fees are received upon initial occupancy, the monthly fees are generally less than fees at a comparable rental community.

**ISC.** The Company's ISC segment includes the outpatient therapy, home health and hospice services provided to residents of many of the Company's communities, to other senior living communities that the Company does not own or operate and to seniors living outside of the Company's communities. The ISC segment does not include the therapy services provided in the Company's skilled nursing units, which are included in the Company's CCRCs - Rental and CCRCs - Entry Fee segments.

Management Services. The Company's management services segment includes communities operated by the Company pursuant to management agreements. In some of the cases, the controlling financial interest in the community is held by third parties and, in other cases, the community is owned in a joint venture structure in which the Company has an ownership interest. Under the management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of expenses it incurs on behalf of the owners.



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The accounting policies of the Company's reportable segments are the same as those described in the summary of significant accounting policies.

The following table sets forth certain segment financial and operating data (dollars in thousands):

|  | Three Months Ended<br>June 30, |            | Six Months Ended June<br>30, |              |
|--|--------------------------------|------------|------------------------------|--------------|
|  | 2013                           | 2012       | 2013                         | 2012         |
| Revenue <sup>(1)</sup>   |                                |            |                              |              |
| Retirement Centers   | \$ 130,170                     | \$ 125,813 | \$ 259,092                   | \$ 250,325   |
| Assisted Living  | 260,497                        | 252,399    | 521,112                      | 503,751      |
| CCRCs - Rental   | 97,562                         | 95,258     | 197,889                      | 190,370      |
| CCRCs - Entry Fee  | 74,016                         | 70,858     | 148,324                      | 142,577      |
| ISC  | 58,693                         | 57,722     | 118,891                      | 111,576      |
| Management Services <sup>(2)</sup>   | 95,530                         | 88,423     | 183,426                      | 174,582      |
|  | \$ 716,468                     | \$ 690,473 | \$ 1,428,734                 | \$ 1,373,181 |
| Segment operating income <sup>(3)</sup>  |                                |            |                              |              |
| Retirement Centers   | \$ 54,177                      | \$ 52,675  | \$ 107,511                   | \$ 103,666   |
| Assisted Living  | 96,181                         | 90,166     | 192,466                      | 180,729      |
| CCRCs - Rental   | 25,567                         | 26,764     | 54,644                       | 54,783       |
| CCRCs - Entry Fee  | 17,772                         | 15,517     | 37,343                       | 32,322       |
| ISC  | 11,214                         | 13,413     | 24,314                       | 24,815       |
| Management Services  | 7,744                          | 7,499      | 15,353                       | 14,943       |
|  | 212,655                        | 206,034    | 431,631                      | 411,258      |
| General and administrative (including non-cash stock-based compensation expense) | 46,035                         | 46,071     | 92,646                       | 91,044       |
| Facility lease expense   | 68,777                         | 70,628     | 137,796                      | 142,073      |
| Depreciation and amortization  | 67,254                         | 63,561     | 131,913                      | 126,905      |
| Asset impairment   | 2,154                          | 7,246      | 2,154                        | 8,329        |
| Loss on acquisition  | —                              | —          | —                            | 636          |
| Gain on facility lease termination   | —                              | —          | —                            | (2,780 )     |
| Income from operations   | \$ 28,435                      | \$ 18,528  | \$ 67,122                    | \$ 45,051    |

|                                   | As of            |                         |
|-----------------------------------|------------------|-------------------------|
|                                   | June 30,<br>2013 | December<br>31,<br>2012 |
| Total assets                      |                  |                         |
| Retirement Centers                | \$ 1,251,500     | \$ 1,256,497            |
| Assisted Living                   | 1,423,997        | 1,438,934               |
| CCRCs - Rental                    | 525,063          | 534,220                 |
| CCRCs - Entry Fee                 | 957,729          | 951,584                 |
| ISC                               | 90,252           | 90,357                  |
| Corporate and Management Services | 382,301          | 394,386                 |
| Total assets                      | \$ 4,630,842     | \$ 4,665,978            |

- (1) All revenue is earned from external third parties in the United States.
- (2) Management services segment revenue includes reimbursements for which the Company is the primary obligor of costs incurred on behalf of managed communities.
- (3) Segment operating income is defined as segment revenues less segment operating expenses (excluding depreciation and amortization).

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### 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 Retirement Residences ("Chartwell"); statements relating to our operational initiatives and our expectations regarding their effect on our results; our expectations regarding the economy, the senior living industry, occupancy, revenue, cash flow, operating income, expenses, capital expenditures, Program Max opportunities, cost savings, the demand for senior housing, the home resale market, expansion and development activity, acquisition opportunities, asset dispositions, our share repurchase program, capital deployment, returns on invested capital and taxes; our expectations regarding returns to shareholders and our growth prospects; our expectations concerning the future performance of recently acquired communities and the effects of acquisitions on our financial results; our expectations regarding the consummation of the Chartwell portfolio acquisition (including the anticipated timing thereof) and the effect of the acquisition on our financial results; 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 and leverage; 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, renovate, 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 regarding our sales, marketing and branding initiatives and their impact on our results; 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 and/or the Chartwell portfolio acquisition; our ability to assume and obtain the mortgage debt financing for the Chartwell portfolio acquisition; the risk associated with the current global economic situation and its impact upon capital markets and liquidity; changes in governmental reimbursement programs; 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; our determination from time to time to purchase any shares under the repurchase program; our ability to fund any repurchases; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; the risk that we may not be able to expand, redevelop and reposition our communities in accordance with our plans; our ability to complete acquisitions and integrate them into our

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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; early terminations or non-renewal of management agreements; 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, 2012 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

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) expansion, redevelopment and repositioning of existing communities; (iii) acquisition and consolidation of asset portfolios and other senior living companies; and (iv) continued expansion of our ancillary services programs (including therapy, home health and hospice services).

The tables below present a summary of our operating results and certain other financial metrics for the three and six months ended June 30, 2013 and 2012 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

|                               | Three Months Ended |           | Increase (Decrease) |         |    |
|-------------------------------|--------------------|-----------|---------------------|---------|----|
|                               | June 30, 2013      | 2012      | Amount              | Percent |    |
| Total revenues                | \$716.5            | \$690.5   | \$26.0              | 3.7     | %  |
| Net loss                      | \$(5.2 )           | \$(19.0 ) | \$(13.8)            | (72.7   | %) |
| Adjusted EBITDA               | \$113.8            | \$104.5   | \$9.3               | 8.9     | %  |
| Cash From Facility Operations | \$71.2             | \$61.5    | \$9.7               | 15.7    | %  |
| Facility Operating Income     | \$197.9            | \$192.2   | \$5.7               | 2.9     | %  |

|                               | Six Months Ended |           | Increase (Decrease) |         |    |
|-------------------------------|------------------|-----------|---------------------|---------|----|
|                               | June 30, 2013    | 2012      | Amount              | Percent |    |
| Total revenues                | \$1,428.7        | \$1,373.2 | \$55.6              | 4.0     | %  |
| Net loss                      | \$(1.6 )         | \$(29.6 ) | \$(28.0)            | (94.4   | %) |
| Adjusted EBITDA               | \$224.1          | \$201.1   | \$23.0              | 11.4    | %  |
| Cash From Facility Operations | \$139.0          | \$116.1   | \$22.9              | 19.8    | %  |
| Facility Operating Income     | \$402.1          | \$383.9   | \$18.2              | 4.7     | %  |

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 income (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.

During the six months ended June 30, 2013, we experienced an increase in our total revenues, primarily due to increases in occupancy and average monthly revenue per unit, including an increase in our ancillary services revenue.

Total revenues for the six months ended June 30, 2013 increased to \$1.4 billion, an increase of \$55.6

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million, or 4.0%, over our total revenues for the six months ended June 30, 2012. Resident fees for the six months ended June 30, 2013 increased \$46.7 million, or 3.9%, from the prior year period. Management fees increased \$0.4 million, or 2.7%, from the prior year period, and reimbursed costs incurred on behalf of managed communities increased \$8.4 million, or 5.3%.

The increase in resident fees during the six months ended June 30, 2013 was primarily a result of a 2.7% increase in senior housing average monthly revenue per unit compared to the prior year period, a 70 basis points increase in average occupancy and an increase in revenues from our ancillary services programs. Our weighted average occupancy rate for the six months ended June 30, 2013 and 2012 was 88.4% and 87.7%, respectively. The increase in our average occupancy rate was a result of improving fundamentals, execution by our field organization and sales and marketing team and the benefit of the capital we have invested and continue to spend on our communities.

During the six months ended June 30, 2013, we also made progress in controlling our cost growth. Facility operating expenses for the six months ended June 30, 2013 were \$829.0 million, an increase of \$26.7 million, or 3.3%, as compared to the six months ended June 30, 2012.

Net loss for the six months ended June 30, 2013 was \$1.6 million, or \$(0.01) per basic and diluted common share, compared to a net loss of \$29.6 million, or \$(0.24) per basic and diluted common share, for the six months ended June 30, 2012.

During the six months ended June 30, 2013, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 11.4%, 19.8% and 4.7%, respectively, when compared to the six months ended June 30, 2012.

During the first six months of 2013, we continued to expand our ancillary services offerings. As of June 30, 2013, we offered therapy services to approximately 52,000 of our units and home health services to approximately 46,000 of our units (approximately 38,000 and 33,000 of these units, respectively, are in our consolidated portfolio). As of that date, we also had nine hospice agencies in operation. We expect to continue to expand our ancillary services programs to additional units and to open or acquire additional home health agencies. We also expect to expand our ancillary services programs by opening additional hospice agencies.

During the six months ended June 30, 2013, we entered into an agreement to acquire seven senior living communities from Chartwell for an aggregate purchase price of \$80.9 million, plus customary transaction expenses. We have been managing six of the communities since our acquisition of Horizon Bay in September 2011. The consummation of the transaction is subject to the satisfaction of certain closing conditions and contingencies, including the receipt of certain lender and regulatory approvals and consents. The transaction is expected to close during the third quarter of 2013.

During the first half of 2013, we also experienced an increase in entrance fee sales and net entrance fees. For the six months ended June 30, 2013, total entrance fee receipts increased by \$6.1 million, or 17.5%, to \$40.8 million and net entrance fees increased by \$2.8 million, or 13.3%, to \$24.0 million.

On March 28, 2013, we entered into a second 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 amended and restated credit agreement dated as of January 31, 2011, as previously amended. The amended credit agreement extended the maturity date of the facility to March 31, 2018 and decreased the interest rate payable on advances and the fee payable on the unused portion of the facility. The amended credit agreement also provides options to increase the committed amount initially from \$230.0 million to \$250.0 million, which we exercised on June 28, 2013, and thereafter from \$250.0 million to up to \$350.0

million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The amended credit agreement now also permits reduction of the committed amount or termination of the facility during the last two years of the five year term without payment of a premium or penalty.

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## Consolidated Results of Operations

## Three Months Ended June 30, 2013 and 2012

The following table sets forth, for the periods indicated, statement 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.

Certain prior period amounts have been reclassified to conform to the current year presentation.

| (dollars in thousands, except average monthly revenue per unit) | Three Months Ended<br>June 30, |            |                        |                          |    |
|---|--------------------------------|------------|------------------------|--------------------------|----|
|   | 2013                           | 2012       | Increase<br>(Decrease) | % Increase<br>(Decrease) |    |
| Statement of Operations Data:                                   |                                |            |                        |                          |    |
| Revenue   |                                |            |                        |                          |    |
| Resident fees   |                                |            |                        |                          |    |
| Retirement Centers  | \$ 130,170                     | \$ 125,813 | \$ 4,357               | 3.5                      | %  |
| Assisted Living   | 260,497                        | 252,399    | 8,098                  | 3.2                      | %  |
| CCRCs – Rental  | 97,562                         | 95,258     | 2,304                  | 2.4                      | %  |
| CCRCs – Entry Fee   | 74,016                         | 70,858     | 3,158                  | 4.5                      | %  |
| ISC   | 58,693                         | 57,722     | 971                    | 1.7                      | %  |
| Total resident fees   | 620,938                        | 602,050    | 18,888                 | 3.1                      | %  |
| Management services <sup>(1)</sup>                              | 95,530                         | 88,423     | 7,107                  | 8.0                      | %  |
| Total revenue   | 716,468                        | 690,473    | 25,995                 | 3.8                      | %  |
| Expense   |                                |            |                        |                          |    |
| Facility operating expense                                      |                                |            |                        |                          |    |
| Retirement Centers  | 75,993                         | 73,138     | 2,855                  | 3.9                      | %  |
| Assisted Living   | 164,316                        | 162,233    | 2,083                  | 1.3                      | %  |
| CCRCs – Rental  | 71,995                         | 68,494     | 3,501                  | 5.1                      | %  |
| CCRCs – Entry Fee   | 56,244                         | 55,341     | 903                    | 1.6                      | %  |
| ISC   | 47,479                         | 44,309     | 3,170                  | 7.2                      | %  |
| Total facility operating expense                                | 416,027                        | 403,515    | 12,512                 | 3.1                      | %  |
| General and administrative expenses                             | 46,035                         | 46,071     | (36 )                  | (0.1                     | %) |
| Facility lease expense  | 68,777                         | 70,628     | (1,851 )               | (2.6                     | %) |
| Depreciation and amortization                                   | 67,254                         | 63,561     | 3,693                  | 5.8                      | %  |
| Asset impairment  | 2,154                          | 7,246      | (5,092 )               | (70.3                    | %) |
| Costs incurred on behalf of managed communities                 | 87,786                         | 80,924     | 6,862                  | 8.5                      | %  |
| Total operating expense   | 688,033                        | 671,945    | 16,088                 | 2.4                      | %  |
| Income from operations  | 28,435                         | 18,528     | 9,907                  | 53.5                     | %  |
| Interest income   | 252                            | 692        | (440 )                 | (63.6                    | %) |
| Interest expense  |                                |            |                        |                          |    |
| Debt  | (29,843 )                      | (32,431 )  | (2,588 )               | (8.0                     | %) |
| Amortization of deferred financing costs and debt discounts     | (4,348 )                       | (4,586 )   | (238 )                 | (5.2                     | %) |
| Change in fair value of derivatives and amortization            | 1,836                          | (278 )     | 2,114                  | 760.4                    | %  |
| Loss on extinguishment of debt                                  | (893 )                         | ¾          | 893                    | 100.0                    | %  |
| Equity in earnings (loss) of unconsolidated ventures            | 445                            | (61 )      | 506                    | 829.5                    | %  |

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|                            |            |             |             |       |    |
|----------------------------|------------|-------------|-------------|-------|----|
| Other non-operating income | 80         | 3           | 77          | NM    |    |
| Loss before income taxes   | (4,036 )   | (18,133 )   | (14,097 )   | (77.7 | %) |
| Provision for income taxes | (1,164 )   | (882 )      | 282         | 32.0  | %  |
| Net loss                   | \$(5,200 ) | \$(19,015 ) | \$(13,815 ) | (72.7 | %) |

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|  | Three Months<br>Ended<br>June 30, |          |          |   | Increase<br>(Decrease) |   | % Increase<br>(Decrease) |   |
|--|-----------------------------------|----------|----------|---|------------------------|---|--------------------------|---|
|  | 2013                              | 2012     |          |   |                        |   |                          |   |
| Selected Operating and Other Data:                             |                                   |          |          |   |                        |   |                          |   |
| Total number of communities (period end)                       | 650                               | 647      | 3        |   | 0.5                    |   | %                        |   |
| Total units operated <sup>(2)</sup>                            |                                   |          |          |   |                        |   |                          |   |
| Period end   | 66,134                            | 66,032   | 102      |   | 0.2                    |   | %                        |   |
| Weighted average   | 66,217                            | 66,090   | 127      |   | 0.2                    |   | %                        |   |
| Owned/leased communities units <sup>(2)</sup>                  |                                   |          |          |   |                        |   |                          |   |
| Period end   | 47,946                            | 48,004   | (58      | ) | (0.1                   |   | %                        |   |
| Weighted average   | 47,907                            | 47,946   | (39      | ) | (0.1                   |   | %                        |   |
| Owned/leased communities occupancy rate (weighted average)     | 88.3                              | %        | 87.7     | % | 0.6                    | % | 0.7                      | % |
| Senior Housing average monthly revenue per unit <sup>(3)</sup> | \$4,373                           | \$4,266  | \$ 107   |   | 2.5                    |   | %                        |   |
| Selected Segment Operating and Other Data:                     |                                   |          |          |   |                        |   |                          |   |
| Retirement Centers   |                                   |          |          |   |                        |   |                          |   |
| Number of communities (period end)                             | 76                                | 76       | —        |   | —                      |   |                          |   |
| Total units <sup>(2)</sup>                                     |                                   |          |          |   |                        |   |                          |   |
| Period end   | 14,430                            | 14,451   | (21      | ) | (0.1                   |   | %                        |   |
| Weighted average   | 14,429                            | 14,451   | (22      | ) | (0.2                   |   | %                        |   |
| Occupancy rate (weighted average)                              | 89.4                              | %        | 88.8     | % | 0.6                    | % | 0.7                      | % |
| Senior Housing average monthly revenue per unit <sup>(3)</sup> | \$3,362                           | \$3,268  | \$ 94    |   | 2.9                    |   | %                        |   |
| Assisted Living  |                                   |          |          |   |                        |   |                          |   |
| Number of communities (period end)                             | 432                               | 434      | (2       | ) | (0.5                   |   | %                        |   |
| Total units <sup>(2)</sup>                                     |                                   |          |          |   |                        |   |                          |   |
| Period end   | 21,524                            | 21,653   | (129     | ) | (0.6                   |   | %                        |   |
| Weighted average   | 21,499                            | 21,637   | (138     | ) | (0.6                   |   | %                        |   |
| Occupancy rate (weighted average)                              | 89.4                              | %        | 88.6     | % | 0.8                    | % | 0.9                      | % |
| Senior Housing average monthly revenue per unit <sup>(3)</sup> | \$4,519                           | \$4,390  | \$ 129   |   | 2.9                    |   | %                        |   |
| CCRCs - Rental   |                                   |          |          |   |                        |   |                          |   |
| Number of communities (period end)                             | 27                                | 27       | —        |   | —                      |   |                          |   |
| Total units <sup>(2)</sup>                                     |                                   |          |          |   |                        |   |                          |   |
| Period end   | 6,687                             | 6,693    | (6       | ) | (0.1                   |   | %                        |   |
| Weighted average   | 6,684                             | 6,659    | 25       |   | 0.4                    |   | %                        |   |
| Occupancy rate (weighted average)                              | 86.2                              | %        | 85.8     | % | 0.4                    | % | 0.5                      | % |
| Senior Housing average monthly revenue per unit <sup>(3)</sup> | \$5,649                           | \$5,561  | \$ 88    |   | 1.6                    |   | %                        |   |
| CCRCs - Entry Fee  |                                   |          |          |   |                        |   |                          |   |
| Number of communities (period end)                             | 14                                | 14       | —        |   | —                      |   |                          |   |
| Total units <sup>(2)</sup>                                     |                                   |          |          |   |                        |   |                          |   |
| Period end   | 5,305                             | 5,207    | 98       |   | 1.9                    |   | %                        |   |
| Weighted average   | 5,295                             | 5,199    | 96       |   | 1.8                    |   | %                        |   |
| Occupancy rate (weighted average)                              | 83.8                              | %        | 83.4     | % | 0.4                    | % | 0.5                      | % |
| Senior Housing average monthly revenue per unit <sup>(3)</sup> | \$5,025                           | \$4,963  | \$ 62    |   | 1.2                    |   | %                        |   |
| Other Entry Fee Data   |                                   |          |          |   |                        |   |                          |   |
| Non-refundable entrance fees sales                             | \$12,124                          | \$10,377 | \$ 1,747 |   | 16.8                   |   | %                        |   |

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|   |        |        |       |      |   |
|---|--------|--------|-------|------|---|
| Refundable entrance fees sales <sup>(4)</sup> | 11,754 | 9,317  | 2,437 | 26.2 | % |
| Total entrance fee receipts                   | 23,878 | 19,694 | 4,184 | 21.2 | % |

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|                                    | Three Months Ended<br>June 30, |          |                        |                          |    |
|------------------------------------|--------------------------------|----------|------------------------|--------------------------|----|
|                                    | 2013                           | 2012     | Increase<br>(Decrease) | % Increase<br>(Decrease) |    |
| Refunds                            | (7,456 )                       | (5,429 ) | 2,027                  | 37.3                     | %  |
| Net entrance fees                  | \$16,422                       | \$14,265 | \$2,157                | 15.1                     | %  |
| Management Services                |                                |          |                        |                          |    |
| Number of communities (period end) | 101                            | 96       | 5                      | 5.2                      | %  |
| Total units <sup>(2)</sup>         |                                |          |                        |                          |    |
| Period end                         | 18,188                         | 18,028   | 160                    | 0.9                      | %  |
| Weighted average                   | 18,310                         | 18,144   | 166                    | 0.9                      | %  |
| Occupancy rate (weighted average)  | 84.9 %                         | 84.0 %   | 0.9 %                  | 1.1                      | %  |
| ISC                                |                                |          |                        |                          |    |
| Outpatient Therapy treatment codes | 840,076                        | 957,364  | (117,288 )             | (12.3                    | %) |
| Home Health average census         | 4,366                          | 3,554    | 812                    | 22.8                     | %  |

- (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) Senior Housing average monthly revenue per unit represents the average of the total monthly resident fee revenues, excluding amortization of entrance fees and ISC segment revenue, divided by average occupied units. Refundable entrance fee sales for the three months ended June 30, 2013 and 2012 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay (4) additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled \$4.0 million and \$3.6 million for the three months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, our total operations included 650 communities with a capacity to serve 66,902 residents.

#### Resident Fees

Resident fees increased over the prior year period primarily as a result of an increase in the average monthly revenue per unit compared to the prior year period, including an increase in revenue from our ancillary services programs, and an increase in occupancy. During the current period, revenues grew 3.1% at the 541 communities we operated during both periods with a 2.2% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy increased 0.8% in these communities period over period.

Retirement Centers revenue increased \$4.4 million, or 3.5%, primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both periods.

Assisted Living revenue increased \$8.1 million, or 3.2%, primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both periods. The increase was partially offset by the impact of the disposition of three communities subsequent to the prior year period.

CCRCs - Rental revenue increased \$2.3 million, or 2.4%, primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both periods.

CCRCs - Entry Fee revenue increased \$3.2 million, or 4.5%, primarily due to increases in the number of units operated and average monthly revenue per unit.

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ISC revenue increased \$0.9 million, or 1.7%, primarily due to the roll-out of our ancillary services programs to additional units subsequent to the prior year period. The increase was partially offset by a decrease in therapy service volume.

Management Services

Management services revenue, including reimbursed costs incurred on behalf of managed communities, increased \$7.1 million, or 8.0%, primarily due to additional costs incurred on behalf of managed communities resulting from an increase in the number of managed communities from the prior year period.

Facility Operating Expense

Facility operating expense increased over the prior-year period primarily due to increased marketing and advertising expenses, as well as increases in salaries and wages and additional expenses incurred in connection with the expansion of our ancillary services programs. These increases were partially offset by a decrease in insurance expense.

Retirement Centers operating expenses increased \$2.9 million, or 3.9%, primarily due to an increase in marketing and advertising expense and an increase in salaries and wages due to wage rate increases and an increase in hours worked period over period. These increases were partially offset by a decrease in insurance expense.

Assisted Living operating expenses increased \$2.1 million, or 1.3%, primarily due to an increase in marketing and advertising expense and an increase in salaries and wages due to wage rate increases. These increases were partially offset by a decrease in insurance expense and by the impact of the disposition of three communities subsequent to the prior year period.

CCRCs - Rental operating expenses increased \$3.5 million, or 5.1%, primarily driven by an increase in salaries and wages due to wage rate increases and increased hours worked period over period, an increase in healthcare supplies expense due to an increase in occupancy and residents with higher acuity needs and an increase in marketing and advertising expense period over period. These increases were partially offset by a decrease in insurance expense.

CCRCs - Entry Fee operating expenses increased \$0.9 million, or 1.6%, primarily driven by an increase in marketing and advertising expense and an increase in salaries and wages due to wage rate increases. These increases were partially offset by a decrease in insurance expense.

ISC operating expenses increased \$3.2 million, or 7.2%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, an increase in therapy labor expense and an increase in bad debt expense.

General and Administrative Expense

General and administrative expense was relatively consistent period over period. In the current year period, salaries and wage expense and employee benefits expense increased compared to the prior-year period due to increased employee headcount. These increases were offset by decreases in integration, transaction-related and electronic medical records ("EMR") roll-out costs compared to the prior year period. 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, transaction-related and EMR roll-out costs, was 4.5% and 4.2% for the three months ended June 30, 2013 and 2012, respectively, calculated as follows (dollars in thousands):





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|   | Three Months Ended June 30, |         |           |         |  |
|---|-----------------------------|---------|-----------|---------|--|
|   | 2013                        |         | 2012      |         |  |
| Resident fee revenues   | \$620,938                   | 78.8 %  | \$602,050 | 79.2 %  |  |
| Resident fee revenues under management  | 167,358                     | 21.2 %  | 158,227   | 20.8 %  |  |
| Total   | \$788,296                   | 100.0 % | \$760,277 | 100.0 % |  |
| General and administrative expenses (excluding non-cash stock-based compensation expense and integration, transaction-related and EMR roll-out costs) | \$35,421                    | 4.5 %   | \$31,654  | 4.2 %   |  |
| Non-cash stock-based compensation expense   | 6,988                       | 0.9 %   | 6,729     | 0.9 %   |  |
| Integration, transaction-related and EMR roll-out costs   | 3,626                       | 0.5 %   | 7,688     | 1.0 %   |  |
| General and administrative expenses (including non-cash stock-based compensation expense and integration, transaction-related and EMR roll-out costs) | \$46,035                    | 5.9 %   | \$46,071  | 6.1 %   |  |

## Facility Lease Expense

Facility lease expense decreased \$1.9 million, or 2.6%, primarily as a result of the purchase of 12 previously leased communities in the prior year.

## Depreciation and Amortization

Depreciation and amortization expense increased \$3.7 million, or 5.8%, primarily as a result of the purchase of 12 previously leased communities in the prior year.

## Asset Impairment

During the three months ended June 30, 2013 and 2012, we recognized \$2.2 million and \$7.2 million, respectively, of impairment charges related to asset impairments for property, plant, and equipment for communities within the CCRCs – Rental and Assisted Living segments, respectively. We compared the estimated fair value of the assets to the carrying value and recorded an impairment charge for the excess of carrying value over estimated fair value.

## Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$6.9 million, or 8.5%, primarily due to additional costs resulting from an increase in the number of managed communities from the prior year period.

## Interest Expense

Interest expense decreased \$4.9 million, or 13.2%, primarily due to decreased interest expense related to our mortgage debt, which had lower interest rates period over period and a gain recorded from the change in the fair value of interest rate swaps and caps due to an increase in interest rates since the purchase of the instruments.

## Income Taxes

Our effective tax rates for the three months ended June 30, 2013 and 2012 were (28.8%) and (4.9%), respectively. The difference in the effective rates for the three months ended June 30, 2013 and 2012 was due to the impact of our improved financial results under generally accepted accounting principles. Tax expense mainly reflects our cash tax

position for states that do not allow for or have suspended the use of net operating losses for the period.

An additional interest charge related to our tax contingency reserve was recorded during the three months ended June 30, 2013. Tax returns for years 2008 through 2011 are subject to future examination by tax authorities. In

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addition, certain tax returns are open from 2000 through 2007 to the extent of the net operating losses generated during those periods.

## Six Months Ended June 30, 2013 and 2012

The following table sets forth, for the periods indicated, statement 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.

Certain prior period amounts have been reclassified to conform to the current year presentation.

|   | Six Months Ended   |            |                        |                        |    |
|---|--|------------|------------------------|------------------------|----|
|   | (dollars in thousands, except average monthly revenue per unit) June 30, |            |                        | %                      |    |
|   | 2013   | 2012       | Increase<br>(Decrease) | Increase<br>(Decrease) |    |
| Statement of Operations Data:                   |  |            |                        |                        |    |
| Revenue   |  |            |                        |                        |    |
| Resident fees                                   |  |            |                        |                        |    |
| Retirement Centers                              | \$ 259,092   | \$ 250,325 | \$ 8,767               | 3.5                    | %  |
| Assisted Living                                 | 521,112  | 503,751    | 17,361                 | 3.4                    | %  |
| CCRCs - Rental                                  | 197,889  | 190,370    | 7,519                  | 3.9                    | %  |
| CCRCs - Entry Fee                               | 148,324  | 142,577    | 5,747                  | 4.0                    | %  |
| ISC   | 118,891  | 111,576    | 7,315                  | 6.6                    | %  |
| Total resident fees                             | 1,245,308  | 1,198,599  | 46,709                 | 3.9                    | %  |
| Management services <sup>(1)</sup>              | 183,426  | 174,582    | 8,844                  | 5.1                    | %  |
| Total revenue                                   | 1,428,734  | 1,373,181  | 55,553                 | 4.0                    | %  |
| Expense   |  |            |                        |                        |    |
| Facility operating expense                      |  |            |                        |                        |    |
| Retirement Centers                              | 151,581  | 146,659    | 4,922                  | 3.4                    | %  |
| Assisted Living                                 | 328,646  | 323,022    | 5,624                  | 1.7                    | %  |
| CCRCs - Rental                                  | 143,245  | 135,587    | 7,658                  | 5.6                    | %  |
| CCRCs - Entry Fee                               | 110,981  | 110,255    | 726                    | 0.7                    | %  |
| ISC   | 94,577   | 86,761     | 7,816                  | 9.0                    | %  |
| Total facility operating expense                | 829,030  | 802,284    | 26,746                 | 3.3                    | %  |
| General and administrative expense              | 92,646   | 91,044     | 1,602                  | 1.8                    | %  |
| Facility lease expense                          | 137,796  | 142,073    | (4,277 )               | (3.0                   | %) |
| Depreciation and amortization                   | 131,913  | 126,905    | 5,008                  | 3.9                    | %  |
| Asset impairment                                | 2,154  | 8,329      | (6,175 )               | (74.1                  | %) |
| Loss on acquisition                             | —  | 636        | (636 )                 | (100.0                 | %) |
| Gain on facility lease termination              | —  | (2,780 )   | (2,780 )               | (100.0                 | %) |
| Costs incurred on behalf of managed communities | 168,073  | 159,639    | 8,434                  | 5.3                    | %  |
| Total operating expense                         | 1,361,612  | 1,328,130  | 33,482                 | 2.5                    | %  |
| Income from operations                          | 67,122   | 45,051     | 22,071                 | 49.0                   | %  |
| Interest income                                 | 555  | 1,544      | (989 )                 | (64.1                  | %) |
| Interest expense                                |  |            |                        |                        |    |
| Debt  | (60,814 )  | (64,481 )  | (3,667 )               | (5.7                   | %) |

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|  |        |   |        |   |       |   |       |    |
|--|--------|---|--------|---|-------|---|-------|----|
| Amortization of deferred financing costs and debt discount | (8,917 | ) | (9,059 | ) | (142  | ) | (1.6  | %) |
| Change in fair value of derivatives and amortization       | 1,971  |   | (511   | ) | 2,482 |   | 485.7 | %  |
| Loss on extinguishment of debt                             | (893   | ) | (221   | ) | 672   |   | 304.1 | %  |

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| (dollars in thousands, except average monthly revenue per unit) | Six Months Ended |            |                        |                             |    |
|---|------------------|------------|------------------------|-----------------------------|----|
|   | 2013             | 2012       | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |    |
| Equity in earnings of unconsolidated ventures                   | 560              | 38         | 522                    | 1,373.7                     | %  |
| Other non-operating income (loss)                               | 1,086            | (108 )     | 1,194                  | NM                          |    |
| Income (loss) before income taxes                               | 670              | (27,747)   | 28,417                 | 102.4                       | %  |
| Provision for income taxes                                      | (2,312 )         | (1,812 )   | 500                    | 27.6                        | %  |
| Net loss  | \$(1,642 )       | \$(29,559) | \$ (27,917 )           | (94.4                       | %) |
| Selected Operating and Other Data:                              |                  |            |                        |                             |    |
| Total number of communities (period end)                        | 650              | 647        | 3                      | 0.5                         | %  |
| Total units operated <sup>(2)</sup>                             |                  |            |                        |                             |    |
| Period end  | 66,134           | 66,032     | 102                    | 0.2                         | %  |
| Weighted average  | 66,142           | 66,114     | 28                     | 0.1                         | %  |
| Owned/leased communities units <sup>(2)</sup>                   |                  |            |                        |                             |    |
| Period end  | 47,946           | 48,004     | (58 )                  | (0.1                        | %) |
| Weighted average  | 47,930           | 47,915     | 15                     | 0.1                         | %  |
| Owned/leased communities occupancy rate (weighted average)      | 88.4 %           | 87.7 %     | 0.7 %                  | 0.8                         | %  |
| Senior Housing average monthly revenue per unit <sup>(3)</sup>  | \$4,374          | \$4,261    | \$ 113                 | 2.7                         | %  |
| Selected Segment Operating and Other Data:                      |                  |            |                        |                             |    |
| Retirement Centers  |                  |            |                        |                             |    |
| Number of communities (period end)                              | 76               | 76         | —                      | —                           |    |
| Total units <sup>(2)</sup>                                      |                  |            |                        |                             |    |
| Period end  | 14,430           | 14,451     | (21 )                  | (0.1                        | %) |
| Weighted average  | 14,429           | 14,451     | (22 )                  | (0.2                        | %) |
| Occupancy rate (weighted average)                               | 89.5 %           | 88.8 %     | 0.7 %                  | 0.8                         | %  |
| Senior Housing average monthly revenue per unit <sup>(3)</sup>  | \$3,345          | \$3,252    | \$ 93                  | 2.9                         | %  |
| Assisted Living   |                  |            |                        |                             |    |
| Number of communities (period end)                              | 432              | 434        | (2 )                   | (0.5                        | %) |
| Total units <sup>(2)</sup>                                      |                  |            |                        |                             |    |
| Period end  | 21,524           | 21,653     | (129 )                 | (0.6                        | %) |
| Weighted average  | 21,527           | 21,636     | (109 )                 | (0.5                        | %) |
| Occupancy rate (weighted average)                               | 89.2 %           | 88.5 %     | 0.7 %                  | 0.8                         | %  |
| Senior Housing average monthly revenue per unit <sup>(3)</sup>  | \$4,521          | \$4,384    | \$ 137                 | 3.1                         | %  |
| CCRCs - Rental  |                  |            |                        |                             |    |
| Number of communities (period end)                              | 27               | 27         | —                      | —                           |    |
| Total units <sup>(2)</sup>                                      |                  |            |                        |                             |    |
| Period end  | 6,687            | 6,693      | (6 )                   | (0.1                        | %) |
| Weighted average  | 6,686            | 6,643      | 43                     | 0.6                         | %  |
| Occupancy rate (weighted average)                               | 86.9 %           | 86.1 %     | 0.8 %                  | 0.9                         | %  |
| Senior Housing average monthly revenue per unit <sup>(3)</sup>  | \$5,679          | \$5,549    | \$ 130                 | 2.3                         | %  |
| CCRCs - Entry Fee   |                  |            |                        |                             |    |
| Number of communities (period end)                              | 14               | 14         | —                      | —                           |    |
| Total units <sup>(2)</sup>                                      |                  |            |                        |                             |    |
| Period end  | 5,305            | 5,207      | 98                     | 1.9                         | %  |

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|                                   |       |   |       |   |     |   |     |   |
|-----------------------------------|-------|---|-------|---|-----|---|-----|---|
| Weighted average                  | 5,288 |   | 5,185 |   | 103 |   | 2.0 | % |
| Occupancy rate (weighted average) | 84.2  | % | 83.6  | % | 0.6 | % | 0.7 | % |

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| (dollars in thousands, except average monthly revenue per unit) | Six Months Ended |          |            |            |   |
|---|------------------|----------|------------|------------|---|
|   | June 30,         |          | Increase   | % Increase |   |
|   | 2013             | 2012     | (Decrease) | (Decrease) |   |
| Senior Housing average monthly revenue per unit <sup>(3)</sup>  | \$5,018          | \$5,009  | \$ 9       | 0.2        | % |
| Other Entry Fee Data  |                  |          |            |            |   |
| Non-refundable entrance fees sales                              | \$21,361         | \$17,377 | \$ 3,984   | 22.9       | % |
| Refundable entrance fees sales <sup>(4)</sup>                   | 19,390           | 17,306   | 2,084      |            |   |