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, 2007

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.)

330 North Wabash Avenue, Suite 1400, Chicago, Illinois 60611

(Address of principal executive offices)

(312) 977-3700

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ‘‘accelerated filer and large accelerated filer’’ in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of August 3, 2007, 101,542,960 shares of the Registrant's common stock, $0.01 par value, were outstanding (excluding unvested restricted shares).

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2007	December 31, 2006

	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	$ 81,229	$ 68,034
Cash and investments – restricted	79,489	61,116
Accounts receivable, net	62,715	58,987
Deferred tax asset	40,021	40,019
Prepaid expenses and other current assets, net	36,330	42,076
Total current assets	299,784	270,232
Property, plant, equipment and leasehold intangibles, net	3,751,666	3,658,788
Cash and investments – restricted	12,743	22,083
Goodwill	339,405	324,750
Other intangible assets, net	274,875	292,448
Other assets, net	176,011	174,154
Total assets	$4,854,484	$4,742,455
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 17,313	$ 20,869
Trade accounts payable	12,626	15,860
Accrued expenses	153,608	155,577
Refundable entrance fees	194,710	198,613
Tenant security deposits	29,485	24,342
Deferred revenue and entrance fee revenue	49,187	47,056
Dividends payable	51,804	46,588
Total current liabilities	508,733	508,905
Long-term debt, less current portion	1,869,089	1,690,570
Line of credit	260,000	163,500
Deferred entrance fee revenue	71,821	70,479
Deferred tax liability	363,299	399,134
Deferred liabilities	108,810	98,673
Other liabilities	38,790	42,581
Total liabilities	3,220,542	2,973,842
Minority interests	3,620	4,601
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $.01 par value, 50,000,000 shares authorized at June 30, 2007 and December 31, 2006; no shares issued and outstanding	—	—
Common stock, $.01 par value, 200,000,000 shares authorized at June 30, 2007 and December 31, 2006; 105,058,375 shares and 104,542,648 shares issued and outstanding (including 3,518,086 and 3,282,000 unvested restricted shares), respectively	1,051	1,045
Additional paid-in-capital	1,855,056	1,934,571
Accumulated deficit	(224,528)	(170,713)
Accumulated other comprehensive loss	(1,257)	(891)
Total stockholders' equity	1,630,322	1,764,012
Total liabilities and stockholders' equity	$4,854,484	$4,742,455

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue				
Resident fees	$ 456,622	$ 267,842	$ 901,960	$ 488,878
Management fees	1,788	585	3,284	1,732
Total revenue	458,410	268,427	905,244	490,610
Expense				
Facility operating expense (excluding depreciation and amortization of $72,508, $30,042, $142,275 and $51,452, respectively)	285,866	161,281	566,675	298,226
General and administrative expense (including non-cash stock-based compensation expense of $8,192, $3,755, $19,012 and $6,773, respectively)	35,758	23,125	76,411	44,210
Facility lease expense	67,176	46,623	135,657	92,357
Depreciation and amortization	82,471	30,947	155,455	53,246
Total operating expense	471,271	261,976	934,198	488,039
(Loss) income from operations	(12,861)	6,451	(28,954)	2,571
Interest income	1,563	625	3,383	1,677
Interest expense				
Debt	(35,078)	(25,544)	(68,530)	(39,234)
Amortization of deferred financing costs	(2,109)	(1,335)	(3,727)	(2,038)
Change in fair value of derivatives and amortization	17,619	519	12,838	418
Loss on extinguishment of debt	(803)	—	(803)	(1,334)
Equity in loss of unconsolidated ventures	(601)	(469)	(2,054)	(637)
Other non-operating income	238	—	238	—
Loss before income taxes	(32,032)	(19,753)	(87,609)	(38,577)
Benefit (provision) for income taxes	12,715	(273)	33,283	(659)
Loss before minority interest	(19,317)	(20,026)	(54,326)	(39,236)
Minority interest	642	(233)	511	(349)
Net loss	$ (18,675)	$ (20,259)	$ (53,815)	$ (39,585)
Basic and diluted loss per share	$ (0.18)	$ (0.31)	$ (0.53)	$ (0.61)
Weighted average shares used in computing basic and diluted loss per share	101,520	65,007	101,411	65,007
Dividends declared per share	$ 0.50	$ 0.35	$ 0.95	$ 0.70

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

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

	Six Months Ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Net loss	$ (53,815)	$ (39,585)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash portion of loss on extinguishment of debt	—	1,334
Depreciation and amortization	159,182	55,284
Minority interest	(511)	349
Gain on sale of assets	(403)	—
Equity in loss of unconsolidated ventures	2,054	637
Distributions from unconsolidated ventures from cumulative share of net earnings	961	—
Amortization of deferred gain	(2,170)	(2,173)
Amortization of entrance fees	(8,900)	(145)
Proceeds from deferred entrance fee revenue	8,642	613
Deferred income tax benefit	(33,326)	—
Change in deferred lease liability	12,364	10,498
Change in fair value of derivatives and amortization	(12,838)	(418)
Stock-based compensation	19,012	6,773
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,363)	(10,715)
Prepaid expenses and other assets, net	4,669	7,376
Accounts payable and accrued expenses	(10,763)	(3,596)
Tenant refundable fees and security deposits	4,656	2,182
Other	459	(5,175)
Net cash provided by operating activities	84,910	23,239
Cash Flows from Investing Activities		
Decrease in lease security deposits and lease acquisition deposits, net	1,602	5,266
(Increase) decrease in cash and investments – restricted	(12,281)	14,854
Additions to property, plant, equipment and leasehold intangibles, net of related payables	(68,933)	(14,957)
Acquisition of assets, net of related payables and cash received	(149,788)	(531,895)
Issuance of notes receivable, net	(10,251)	—
Investment in unconsolidated ventures	(1,176)	—
Distributions received from unconsolidated ventures	1,765	—
Net cash used in investing activities	(239,062)	(526,732)
Cash Flows from Financing Activities		
Proceeds from debt	249,011	321,170
Repayment of debt	(25,999)	(11,356)
Buyout of capital lease obligation	(51,114)	—

Proceeds from line of credit	328,500	215,000
Repayment of line of credit	(232,000)	(20,000)
Payment of dividends	(93,178)	(39,714)
Payment of financing costs, net of related payables	(5,179)	(10,636)
Other	(612)	—
Refundable entrance fees:		
Proceeds from refundable entrance fees	8,322	2,756
Refunds of entrance fees	(10,404)	(1,011)
Net cash provided by financing activities	167,347	456,209
Net increase (decrease) in cash and cash equivalents	13,195	(47,284)
Cash and cash equivalents at beginning of period	68,034	77,682
Cash and cash equivalents at end of period	$ 81,229	$ 30,398

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

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

1. Description of Business

Brookdale Senior Living Inc. (‘‘Brookdale’’ or the ‘‘Company’’) is a leading owner and operator of senior living facilities 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. Currently, the Company owns and operates independent living, assisted living and dementia-care facilities and continuing care retirement centers.

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, 2007, 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, 2006, as filed with the Securities and Exchange Commission.

In 2006, the Company adopted EITF 04-5, Determining Whether a General Partner, or the General Partners as a

Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, and as a result, consolidated the operations of three limited partnerships controlled by the Company. In 2006, the Company purchased a facility from one of the limited partnerships and the partnership was liquidated. Additionally in May 2007, the Company purchased another facility from one of the limited partnerships and the partnership was liquidated. The ownership interest in the remaining limited partnership not owned by the Company has been reflected in the consolidated balance sheets as minority interests.

Purchase Accounting

In determining the allocation of the purchase price of companies and facilities to net tangible and identified intangible assets acquired and liabilities assumed, we make estimates of the fair value of the tangible and intangible assets and acquired liabilities using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. We allocate the purchase price of facilities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards (‘‘SFAS’’) No. 141, Business Combinations. The determination of fair value involves the use of significant judgment and estimation. We determine fair values as follows:

Current assets and current liabilities assumed are valued at carryover basis which approximates fair value.

Property, plant and equipment are valued utilizing discounted cash flow projections that assume certain future revenue and costs, and considers capitalization and discount rates using current market conditions.

Table of Contents

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

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

Leasehold operating intangibles are valued utilizing discounted cash flow projections that assume certain future revenues and costs over the remaining lease term. The value assigned to leasehold operating intangibles is amortized on a straight-line basis over the lease term.

Facility purchase options are valued at the estimated value of the underlying facility less the cost of the option payment discounted at current market rates. Management contracts and other acquired contracts are valued at a multiple of management fees and operating income and amortized over the estimated term of the agreement.

Long-term debt assumed is recorded at fair market value based on the current market rates and collateral securing the indebtedness.

Capital lease obligations are valued based on the present value of the minimum lease payments applying a discount rate equal to our estimated incremental borrowing rate at the date of acquisition.

Deferred entrance fee revenue is valued at the estimated cost of providing services to residents over the terms of the current contracts to provide such services. Refundable entrance fees are valued at cost pursuant to the resident lease plus the resident's share of any appreciation of the facility unit at the date of acquisition, if applicable.

A deferred tax liability is recognized at statutory rates for the difference between the book and tax bases of the acquired assets and liabilities.

The excess of the fair value of liabilities assumed and cash paid over the fair value of assets acquired is allocated to goodwill.

Self-Insurance Liability Accruals

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Although we maintain general liability and professional liability insurance policies for our owned, leased and managed facilities under a master insurance program, our current policies provide for deductibles of $3.0 million for each claim. As a result, we are self-insured for most claims. In addition, we maintain a self-insured workers compensation program and a self-insured employee medical program for amounts below excess loss coverage amounts, as defined. We review the adequacy of our accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third party administrator estimates, consultants, advice from legal counsel and industry data, and adjust accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

During the three months ended June 30, 2007, we recorded a $4.2 million receivable related to a collateral recovery from an insurance carrier for amounts owed to Alterra Healthcare Corporation, a wholly-owned subsidiary, pursuant to a pre-bankruptcy insurance policy. Such amount had not previously been recognized by the Company due to the existence of preconfirmation contingencies which were resolved prior to June 30, 2007. The receivable was recorded as a $3.8 million reduction of general and administrative expense and $0.4 million of interest income in the condensed consolidated statements of operations. The receivable was collected in full in July 2007.

Table of Contents

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

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (''FASB'') issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (''FIN 48''). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 in the current year. See Note 12 for a discussion on the impact of adoption.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (‘‘SFAS 157’’). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (‘‘SFAS 159’’). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Both SFAS 157 and SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS 157 and SFAS 159 will materially impact our financial position or results of operations.

Dividends

On June 12, 2007, our board of directors declared a quarterly cash dividend of $0.50 per share of our common stock, or an aggregate of $51.8 million, for the quarter ended June 30, 2007. The $0.50 per share dividend was paid on July 13, 2007, to holders of record of our common stock on June 29, 2007.

Reclassifications

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

3. Stock-Based Compensation

Compensation expense in connection with grants of restricted stock of $8.2 million and $3.8 million was recorded for the three months ended June 30, 2007 and 2006, respectively, and $19.0 million and $6.8 million was recorded for the six months ended June 30, 2007 and 2006, respectively. All amounts were net of forfeitures estimated at 5% of the shares granted.

On September 15, 2006, we entered into Separation and General Release Agreements with two officers that accelerated the vesting provision of a portion of their restricted stock grants upon satisfying certain conditions. As a result of the modification, the previous compensation expense related to these grants was reversed during the year ended December 31, 2006. The fair value of the stock at the modification date was expensed over the modified service period. The impact of the adjustment was $4.1 million of additional expense for the six months ended June 30, 2007.

For all awards with graded vesting other than awards with performance-based vesting conditions, the Company records compensation costs for the entire award on a straight-line basis over the requisite service period. For graded-vesting awards with performance-based vesting conditions, total compensation cost 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

Table of Contents

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

met or it is probable the goals will not be met, no compensation cost is recognized and any previously recognized compensation cost is reversed.

Current year grants of restricted shares under the Company’s Omnibus Stock Incentive Plan were as follows ($ in 000’s except for grants and per share amounts):

	Grants	Value Per Share	Total Value
Three months ended March 31, 2007	53,000	$ 45.02	$ 2,399
Three months ended June 30, 2007	544,000	45.02 – 46.06	25,023

4. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the six months ended June 30, 2007 presented on an operating segment basis ($ in 000’s):

	Independent Living	Assisted Living	Retirement Centers/CCRCs	Total
Balance at December 31, 2006	$ 8,118	$ 101,921	$ 214,711	$ 324,750
Additions	—	—	12,676	12,676
Adjustments	—	862	1,117	1,979
Balance at June 30, 2007	$ 8,118	$ 102,783	$ 228,504	$ 339,405

The additions to goodwill related to adjusting the allocation of the purchase price for an acquisition which occurred in the third quarter of fiscal 2006 and an acquisition completed in the first quarter of 2007. The adjustments primarily related to the adoption of FIN 48 in the first quarter of 2007 and its impact on acquired entities.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of other intangible assets at June 30, 2007 and December 31, 2006 ($ in 000’s):

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Facility purchase options	$ 147,682	$ (922)	$ 146,760	$ 147,682	$ —	$ 147,682
Other intangible assets, net	158,041	(29,926)	128,115	158,849	(14,083)	144,766
Total	$ 305,723	$ (30,848)	$ 274,875	$ 306,531	$ (14,083)	$ 292,448

Amortization expense related to definite-lived intangible assets for the three and six months ended June 30, 2007 was $8.8 million and $16.8 million, respectively. There was no amortization expense for the three and six months ended June 30, 2006 as the Company acquired these intangible assets in conjunction with an acquisition in July 2006.

Table of Contents

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

5. Property, Plant, Equipment and Leasehold Intangibles, Net

Property, plant, equipment and leasehold intangibles, net consist of the following ($ in 000's):

	June 30, 2007	December 31, 2006
Land	$ 263,978	$ 236,945
Buildings and improvements	2,626,014	2,301,841
Furniture and equipment	172,005	137,583
Resident and operating lease intangibles	515,865	577,547
Assets under capital and financing leases	513,055	654,337
	4,090,917	3,908,253
Accumulated depreciation and amortization	(339,251)	(249,465)
Property, plant, equipment and leasehold intangibles, net	$ 3,751,666	$ 3,658,788

6. Acquisitions

Financial results are impacted by the timing, size and number of acquisitions we complete in a period. During the six months ended June 30, 2007, the number of facilities we owned or leased increased by three. The number of facilities we own or lease was unchanged by our acquisition of joint venture partner interests, our acquisition of remaining portions of owned facilities and our acquisition of service businesses. The results of facilities and companies acquired are included in the condensed consolidated financial statements from the effective date of the acquisition.

Seller	Closing Date	Purchase Price, Excluding Fees, Expenses and Assumption of Debt ($ in millions)	Segment
McClaren Medical Management, Inc. and FP Flint, LLC	January 24, 2007	$ 3.9	Assisted Living
American Senior Living of Jacksonville-SNF, LLC	February 1, 2007	6.8	Retirement Centers/CCRCs
1st Choice Home Health, Inc.	February 15, 2007	3.0	Retirement Centers/CCRCs, Assisted Living and Independent Living
Healthcare Property Investors, Inc.	February 28, 2007	9.5	Assisted Living
Chancellor Health Care of California L.L.C.	April 1, 2007	10.8	Independent Living

Seminole Nursing Pavilion and Seminole Properties	April 4, 2007	51.1	Retirement Centers/CCRCs
Cleveland Retirement Properties, LLC and Countryside ALF, LLC	April 18, 2007	102.0	Retirement Centers/CCRCs
Paradise Retirement Center, L.P.	May 31, 2007	15.3	Independent Living
Total		$ 202.4	

Table of Contents

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

On January 24, 2007, we acquired the interests held by our joint venture partners in a facility located in Flint, Michigan for approximately $3.9 million. This facility is referred to as the ‘‘Flint Facility’’. In connection with the acquisition, the Company obtained $12.6 million of first mortgage financing bearing interest at LIBOR plus 1.15% payable interest only through February 1, 2012 and also entered into interest rate swaps to convert the loan from floating to fixed (note 7).

On February 1, 2007, we acquired the skilled nursing portion of a CCRC facility located in Jacksonville, Florida for approximately $6.8 million. The assisted living and independent living portions of the facility were acquired in 2006 by the Company. We refer to the facility as the ‘‘Atrium SNF’’. In connection with the acquisition, the Company assumed a first mortgage note secured by the property in the amount of $3.7 million. The note bears interest at 6.10% with principal and interest payable until maturity on September 1, 2039.

On February 15, 2007, we acquired certain home health care assets for approximately $3.0 million. The purchase price was assigned entirely to goodwill. We refer to these operations as the ‘‘Home Health Acquisition’’.

On February 28, 2007, we acquired a previously leased facility in Richmond Heights, Ohio for approximately $9.5 million. We refer to the facility as the ‘‘Richmond Heights Facility’’.

Effective as of April 1, 2007, we acquired the leasehold interests of three assisted living facilities located in California for approximately $10.8 million. We refer to these facilities as the ‘‘Chancellor Portfolio’’.

On April 4, 2007, we purchased the real property underlying an entrance fee continuing care retirement community located in Tampa, Florida for an aggregate purchase price of approximately $51.1 million. The community consists of independent living retirement apartments, a skilled nursing facility and an assisted living facility. We previously managed this community pursuant to a cash-flow management agreement and accounted for this community as a capital lease. We refer to the facilities as the ‘‘Freedom Square Portfolio’’.

On April 18, 2007, we acquired two facilities located in Ohio and North Carolina for approximately $102.0 million. The facilities were previously operated by the Company under long term operating lease agreements. We refer to the facilities as the ‘‘Saunders Portfolio’’.

On May 31, 2007, we acquired a facility in Phoenix, Arizona in which we held partnership interests for approximately $15.3 million. We refer to this facility as ‘‘Grand Court Phoenix Facility’’.

The above acquisitions were accounted for using the purchase method of accounting and the purchase prices were allocated to the associated assets and liabilities based on their estimated fair values. The Company has made preliminary purchase price allocations for these transactions resulting in approximately $3.1 million of goodwill being recorded in the Retirement Centers/CCRCs segment and anticipates finalizing the purchase price allocations within one year of the acquisition date.

Table of Contents

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

7. Debt

Long-term Debt, Capital Leases and Financing Obligations

Long-term debt, capital leases and financing obligations consist of the following ($ in 000's):

	June 30, 2007	December 31, 2006
Mortgage notes payable due 2008 through 2039; weighted average interest rate of 7.02% in 2007 (weighted average interest rate of 6.98% in 2006)	$ 621,451	$ 490,997
Mortgages payable due 2009 through 2038; weighted average interest rate of 7.08% in 2007 (weighted average interest rate of 6.57% in 2006)	74,561	74,571
$150,000 Series A notes payable, secured by five facilities, bearing interest at LIBOR plus 0.88% effective August 2006 (3.05% prior to that date), payable in monthly installments of interest only until August 2011 and payable in monthly installments of principal and interest through maturity in August 2013, and secured by a $7.0 million guaranty by a subsidiary of the Company and a $3.0 million letter of credit	150,000	150,000
Mortgages payable due 2012, weighted average interest rate of 5.39% and 5.37%, in 2007 and 2006, respectively, payable interest only through July 2010 and payable in monthly installments of principal and interest through maturity in July 2012, secured by the FIT REN portfolio(1)	171,000	171,000
Mortgages payable due 2010, bearing interest at LIBOR plus 2.25% effective May 1, 2006 (3.0% prior to that date), payable in monthly installments of interest only until April 2009 and payable in monthly installments of principal and interest through maturity in April 2010, secured by the Fortress CCRC Portfolio(1)	105,756	105,756
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae (weighted average interest rates of 5.04% and 4.91% at June 30, 2007 and December 31, 2006, respectively), due 2032, payable interest only until maturity, secured by the Chambrel portfolio(1)	100,841	100,841

Capital and financing lease obligations payable through 2020; weighted average interest rate of 8.90% in 2007 (weighted average interest rate of 8.91% in 2006)	314,052	371,346
Mortgage note, bearing interest at a variable rate of LIBOR plus 0.70%, payable interest only through maturity in August 2012. The note is secured by 16 of our facilities and an $11.5 million guaranty by the Company	333,500	225,000
Mezzanine loan payable to Brookdale Senior Housing, LLC joint venture with respect to The Heritage at Gaines Ranch facility, payable to the extent of all available cash flow (as defined)	12,739	12,739
Mortgages payable due 2010; interest rate of 7.20%, secured by the limited partnerships consolidated pursuant to EITF 04-5 (weighted average interest rate of 6.81% in 2006)	2,502	9,189
Total debt	1,886,402	1,711,439
Less current portion of long-term debt	17,313	20,869
Total long-term debt	$ 1,869,089	$ 1,690,570

(1) See our Annual Report on Form 10-K for the year ended December 31, 2006 for a description of the referenced portfolios.

Table of Contents

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

As of June 30, 2007, we had an available secured line of credit of $320.0 million ($70.0 million letter of credit sublimit) and a letter of credit facility of up to $80.0 million. The line of credit agreement bears interest at the base rate plus 0.50% or LIBOR plus 1.50%, at our election. The $80.0 million letter of credit facility bears interest at 1.50%. In connection with entering into the credit facility agreement, we paid a commitment fee of 0.50% and are subject to a non-use fee of 0.25% on all unutilized amounts. The agreement matures on November 15, 2008 subject to extension at our option for six months and payment of a 0.375% commitment fee. As of June 30, 2007, $260.0 million was drawn on the revolving loan facility and $98.0 million letters of credit have been issued under the agreements. The agreements are secured by a pledge of our tier one subsidiaries and, subject to certain limitations, subsidiaries formed to consummate future acquisitions.

On January 16, 2007 and January 24, 2007, we financed a previous acquisition and the Flint Facility with $130.0 million of first mortgage financing bearing interest at LIBOR plus 1.15% payable interest only through February 1, 2012. We also entered into interest rate swaps to convert the loan from floating to fixed. The loan is secured by 27 previously acquired facilities and the Flint Facility and is partially secured by a $7.4 million letter of credit that will be released upon achievement of certain debt service coverage ratios.

On April 18, 2007, we financed a previously acquired facility as well as the Saunders Portfolio with $108.5 million of first mortgage financing bearing interest at LIBOR plus 0.70% payable interest only through August 1, 2012. We have entered into interest rate swaps to convert the loan from floating to fixed.

The financings entered into on January 16, 2007, January 24, 2007 and April 18, 2007, are all part of the same master loan agreement whereby the amounts are secured by all properties under the master agreement.

In the normal course of business, we use a variety of financial instruments to manage or hedge interest rate risk. The Company entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to our hedge agreements, we are required to secure our obligation to the counterparty if the fair value liability exceeds a specified threshold.

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

The following table summarizes our swap instruments at June 30, 2007 ($ in 000's):

Current notional balance	$ 1,176,620
Highest possible notional	$ 1,176,620
Lowest interest rate	3.62%
Highest interest rate	6.87%
Average fixed rate	4.89%
Earliest maturity date	2008
Latest maturity date	2012
Weighted average original maturity	4.9 years
Estimated asset fair value (included in other assets, net at June 30, 2007)	$ 14,123
Estimated liability fair value (included in other liabilities at June 30, 2007)	$ (699)

Prior to October 1, 2006, the Company qualified for hedge accounting on designated swap instruments pursuant to SFAS No. 133, Accounting for Derivative Instruments and Certain Hedging

Table of Contents

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

Activities, with the effective portion of the change in fair value of the derivative recorded in other comprehensive income and the ineffective portion included in the change in fair value of derivatives and amortization in the statement of operations.

On October 1, 2006, the Company elected to discontinue hedge accounting prospectively for the previously designated swap instruments. Consequently, the net gains and losses accumulated in other comprehensive income at that date of $1.3 million related to the previously designated swap instruments are being amortized to interest expense over the life of the underlying hedged debt payments. In the future, if the underlying hedged debt is extinguished or refinanced, the remaining unamortized gain or loss in accumulated other comprehensive income will be recognized in net income. Although hedge accounting was discontinued on October 1, 2006, the swap instruments remain outstanding and are carried at fair value in the consolidated balance sheet and the change in fair value beginning October 1, 2006 has been included in the statements of operations.

In April 2007, the Company entered into two separate treasury rate locks for notional amounts of $70 million and $50 million in anticipation of the Company's planned future issuance of $120 million of fixed-rate debt. Both rate locks expired in May 2007 and resulted in a cash receipt to the Company of approximately $0.4 million which has been included in the results from operations.

8. Legal Proceedings

In connection with the sale of certain facilities to Ventas Realty Limited Partnership (''Ventas'') in 2004, two legal actions have been filed. The first action was filed on September 15, 2005, by current and former limited partners in 36 investing partnerships in the United States District Court for the Eastern District of New York captioned David T. Atkins et al. v. Apollo Real Estate Advisors, L.P., et al. (the ''Action''). On March 17, 2006, a third amended complaint was filed in the Action. The third amended complaint is brought on behalf of current and former limited partners in 14 investing partnerships. It names as defendants, among others, the Company, Brookdale Living Communities, Inc. (''BLC''), a subsidiary of the Company, GFB-AS Investors, LLC (''GFB-AS''), a subsidiary of BLC, the general partners of the 14 investing partnerships, which are alleged to be subsidiaries of GFB-AS, Fortress Investment Group (''Fortress''), an affiliate of our largest stockholder, and R. Stanley Young, our former Chief Financial Officer. The nine count third amended complaint alleges, among other things, (i) that the defendants converted for their own use the property of the limited partners of 11 partnerships, including through the failure to obtain consents the plaintiffs contend were required for the sale of facilities indirectly owned by those partnerships to Ventas; (ii) that the defendants fraudulently persuaded the limited partners of three partnerships to give up a valuable property right based upon incomplete, false and misleading statements in connection with certain consent solicitations; (iii) that certain defendants, including GFB-AS, the general partners, and our former Chief Financial Officer, but not including the Company, BLC, or Fortress, committed mail fraud in connection with the sale of facilities indirectly owned by the 14 partnerships at issue in the Action to Ventas; (iv) that certain defendants, including GFB-AS and our former Chief Financial Officer, but not including the Company, BLC, the general partners, or Fortress, committed wire fraud in connection with certain communications with plaintiffs in the Action and another investor in a limited partnership; (v) that the defendants, with the exception of the Company, committed substantive violations of the Racketeer Influenced and Corrupt Organizations Act (''RICO''); (vi) that the defendants conspired to violate RICO; (vii) that GFB-AS and the general partners violated the partnership agreements of the 14 investing partnerships; (viii) that GFB-AS, the general partners, and our former Chief Financial Officer breached fiduciary duties to the plaintiffs; and (ix) that the defendants were unjustly enriched. The plaintiffs have asked for damages in excess of $100.0 million on each of the counts described above, including treble damages for the RICO claims. On April 18, 2006, we filed a motion to dismiss the claims with prejudice, which remains pending before the court, and plan to continue to vigorously defend this Action. A putative class action lawsuit was

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Table of Contents

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

also filed on March 22, 2006, by certain limited partners in four of the same partnerships involved in the Action in the Court of Chancery for the State of Delaware captioned Edith Zimmerman et al. v. GFB-AS Investors, LLC and Brookdale Living Communities, Inc. (the ''Second Action''). On November 21, 2006, an amended complaint was filed in the Second Action. The putative class in the Second Action consists only of those limited partners in the four investing partnerships who are not plaintiffs in the Action. The Second Action names as defendants BLC and GFB-AS. The complaint alleges a claim for breach of fiduciary duty arising out of the sale of facilities indirectly owned by the investing partnerships to Ventas and the subsequent lease of those facilities by Ventas to subsidiaries of BLC. The plaintiffs seek, among other relief, an accounting, damages in an unspecified amount, and disgorgement of unspecified amounts by which the defendants were allegedly unjustly enriched. On December 12, 2006, we filed an answer denying the claim asserted in the amended complaint and providing affirmative defenses. On December 27, 2006, the plaintiffs moved to certify the Action as a class action. Both the plaintiffs and defendants have served document production requests and the Action is currently in the beginning stages of document discovery. We also intend to vigorously defend this Second Action. Because these actions are in an early stage we cannot estimate the possible range of loss, if any.

In addition, we have been and are currently involved in other litigation and claims incidental to the conduct of our business which are comparable to other companies in the senior living industry. Certain claims and lawsuits allege large damage amounts and may require significant legal costs to defend and resolve. Similarly, our industry is continuously subject to scrutiny by governmental regulators, which could result in litigation related to regulatory compliance matters. As a result, we maintain insurance policies in amounts and with coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. Because our current policies provide for deductibles of $3.0 million for each claim, we are, in effect, self insured for most claims.

9. Supplemental Disclosure of Cash Flow Information ($ in 000’s)

	Six Months Ended June 30, 2007	2006
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 67,564	$ 35,362
Income taxes paid	$ 501	$ 335
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Consolidation of limited partnerships pursuant to EITF 04-5 on January 1, 2006:		
Property, plant, equipment and leasehold intangibles, net	$ —	$ 31,645
Accounts receivable and other	—	1,410
Cash and investments-restricted	—	1,204
Accrued expenses and other	—	(2,245)
Tenant refundable fees and security deposits	—	(177)
Debt	—	(19,723)
Minority interest	—	(12,114)
Net	$ —	$ —
De-consolidation of leased development property:		
Property, plant, equipment and leasehold intangibles, net	$ (2,978)	$ —

Table of Contents

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

	Six Months Ended June 30,	
	2007	2006
Debt	2,978	—