

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

Brookdale Senior Living Inc.  
Form 10-Q  
May 12, 2014  
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  
T 1934

For the quarterly period ended March 31, 2014

or

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

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

Commission File Number: 001-32641

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

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

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

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

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

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

Large accelerated filer T Accelerated filer £

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

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

As of May 7, 2014, 124,816,713 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

---

TABLE OF CONTENTS  
BROOKDALE SENIOR LIVING INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2014

	PAGE
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets - As of March 31, 2014 (Unaudited) and December 31, 2013	3
Condensed Consolidated Statements of Operations - Three months ended March 31, 2014 and 2013 (Unaudited)	4
Condensed Consolidated Statement of Stockholders' Equity - Three months ended March 31, 2014 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows - Three months ended March 31, 2014 and 2013 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	35
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 6. Exhibits	37
Signatures	38

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$45,701	\$58,511
Cash and escrow deposits — restricted	33,953	38,191
Accounts receivable, net	107,568	104,262
Deferred tax asset	17,045	17,643
Prepaid expenses and other current assets, net	83,115	76,255
Total current assets	287,382	294,862
Property, plant and equipment and leasehold intangibles, net	3,886,391	3,895,475
Cash and escrow deposits — restricted	55,222	57,611
Investment in unconsolidated ventures	44,064	44,103
Goodwill	109,553	109,553
Other intangible assets, net	158,203	158,757
Other assets, net	178,793	177,396
Total assets	\$4,719,608	\$4,737,757
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$65,245	\$201,954
Trade accounts payable	53,010	65,840
Accrued expenses	188,321	209,479
Refundable entrance fees and deferred revenue	398,300	388,400
Tenant security deposits	5,241	5,171
Total current liabilities	710,117	870,844
Long-term debt, less current portion	2,544,162	2,404,624
Line of credit	25,000	30,000
Deferred entrance fee revenue	89,653	86,862
Deferred liabilities	155,002	154,870
Deferred tax liability	81,299	81,299
Other liabilities	87,706	88,321
Total liabilities	3,692,939	3,716,820
Stockholders' Equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at March 31, 2014 and December 31, 2013; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized at March 31, 2014 and December 31, 2013; 131,122,449 and 130,155,012 shares issued and 128,694,048 and 127,726,611 shares outstanding (including 3,877,634 and 3,372,937 unvested restricted shares), respectively	1,287	1,277
Additional paid-in-capital	2,033,492	2,025,471
Treasury stock, at cost; 2,428,401 shares at March 31, 2014 and December 31, 2013	(46,800 )	(46,800 )

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

Accumulated deficit	(961,310 )	(959,011 )
Total stockholders' equity	1,026,669	1,020,937
Total liabilities and stockholders' equity	\$4,719,608	\$4,737,757

See accompanying notes to condensed consolidated financial statements.

3

---

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

	Three Months Ended March 31,	
	2014	2013
Revenue		
Resident fees	\$650,310	\$624,370
Management fees	7,402	7,609
Reimbursed costs incurred on behalf of managed communities	89,563	80,287
Total revenue	747,275	712,266
Expense		
Facility operating expense (excluding depreciation and amortization of \$62,695 and \$57,255, respectively)	429,870	413,003
General and administrative expense (including non-cash stock-based compensation expense of \$7,572 and \$6,894, respectively)	55,509	46,611
Facility lease expense	69,869	69,019
Depreciation and amortization	70,316	64,659
Costs incurred on behalf of managed communities	89,563	80,287
Total operating expense	715,127	673,579
Income from operations	32,148	38,687
Interest income	321	303
Interest expense:		
Debt	(29,998 )	(30,971 )
Amortization of deferred financing costs and debt discount	(4,018 )	(4,569 )
Change in fair value of derivatives	(847 )	135
Equity in earnings of unconsolidated ventures	636	115
Other non-operating income	465	1,006
(Loss) income before income taxes	(1,293 )	4,706
Provision for income taxes	(1,006 )	(1,148 )
Net (loss) income	\$(2,299 )	\$3,558
Basic (loss) earnings per share	\$(0.02 )	\$0.03
Weighted average shares used in computing basic (loss) earnings per share	124,478	122,823
Diluted (loss) earnings per share	\$(0.02 )	\$0.03
Weighted average shares used in computing diluted (loss) earnings per share	124,478	124,391

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In- Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount				
Balances at January 1, 2014	127,727	\$ 1,277	\$ 2,025,471	\$(46,800)	\$( 959,011 )	\$ 1,020,937
Compensation expense related to restricted stock grants		—	7,572	—	—	7,572
Net loss		—	—	—	(2,299 )	(2,299 )
Issuance of common stock under Associate Stock Purchase Plan	13	—	377	—	—	377
Restricted stock, net	954	10	(10 )	—	—	—
Other		—	82	—	—	82
Balances at March 31, 2014	128,694	\$ 1,287	\$ 2,033,492	\$(46,800)	\$( 961,310 )	\$ 1,026,669

See accompanying notes to condensed consolidated financial statements.

5

---

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

	Three Months Ended March 31,	
	2014	2013
<b>Cash Flows from Operating Activities</b>		
Net (loss) income	\$(2,299 )	\$3,558
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	74,334	69,228
Equity in earnings of unconsolidated ventures	(636 )	(115 )
Distributions from unconsolidated ventures from cumulative share of net earnings	245	668
Amortization of deferred gain	(1,093 )	(1,093 )
Amortization of entrance fees	(7,202 )	(7,133 )
Proceeds from deferred entrance fee revenue	9,035	9,237
Deferred income tax provision	598	—
Change in deferred lease liability	(223 )	748
Change in fair value of derivatives	847	(135 )
Loss (gain) on sale of assets	76	(926 )
Non-cash stock-based compensation	7,572	6,894
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,499 )	(9,064 )
Prepaid expenses and other assets, net	(5,816 )	9,140
Accounts payable and accrued expenses	(27,561)	(10,871 )
Tenant refundable fees and security deposits	(615 )	(335 )
Deferred revenue	7,933	(5,316 )
Net cash provided by operating activities	52,696	64,485
<b>Cash Flows from Investing Activities</b>		
Decrease (increase) in lease security deposits and lease acquisition deposits, net	7	(1,952 )
Decrease in cash and escrow deposits — restricted	6,627	826
Additions to property, plant and equipment and leasehold intangibles, net	(59,717)	(51,614 )
Acquisition of assets, net of related payables and cash received	(515 )	(2 )
Payments on (issuance of) notes receivable, net	76	(17 )
Investment in unconsolidated ventures	—	(5,843 )
Proceeds from sale of assets, net	—	440
Net cash used in investing activities	(53,522)	(58,162 )
<b>Cash Flows from Financing Activities</b>		
Proceeds from debt	20,516	8,955
Repayment of debt and capital lease obligations	(22,401)	(17,707 )
Proceeds from line of credit	70,000	105,000
Repayment of line of credit	(75,000)	(140,000)
Payment of financing costs, net of related payables	(2,905 )	(2,200 )
Refundable entrance fees:		
Proceeds from refundable entrance fees	5,924	7,636
Refunds of entrance fees	(8,446 )	(9,320 )
Other	328	315
Net cash used in financing activities	(11,984)	(47,321 )



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

Net decrease in cash and cash equivalents	(12,810)	(40,998 )
Cash and cash equivalents at beginning of period	58,511	69,240
Cash and cash equivalents at end of period	\$45,701	\$28,242

See accompanying notes to condensed consolidated financial statements.

6

---

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 Brookdale Ancillary Services, 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 March 31, 2014, 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, 2013, 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. The refundable portion of the fee is not amortized and included in refundable entrance fees. All refundable amounts due to residents at any time in the future are classified as current liabilities.

#### 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).

7

---

### 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

Accounting Standards Codification ("ASC") 820 – Fair Value Measurements ("ASC 820") 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.

The Company 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 as of March 31, 2014 and December 31, 2013. 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.

### New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 changes the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The Company adopted the provisions of this update as of January 1, 2014 and incorporated the provisions of this update to its condensed consolidated financial statements upon adoption. The adoption of this update did not have a material impact on the Company's financial condition or results of operations.

8

---

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014 and is available for early adoption as of January 1, 2014. The Company adopted the provisions of ASU 2014-08 as of January 1, 2014 and incorporated the provisions of this update to its condensed consolidated financial statements upon adoption. The adoption of ASU 2014-08 did not have a material impact on the Company's financial condition 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.

The following table summarizes the computation of basic and diluted (loss) earnings per share amounts presented in the accompanying condensed consolidated statements of operations (in thousands, except per share data):

	Three Months Ended March 31,	
	2014	2013
Income attributable to common shareholders:		
Net (loss) income	\$(2,299 )	\$3,558
Weighted-average shares outstanding - basic	124,478	122,823
Effect of dilutive securities - Unvested restricted stock and restricted stock units	—	1,568
Weighted-average shares outstanding - diluted	124,478	124,391
Basic (loss) earnings per common share:		
Net (loss) income per share attributable to common shareholders	\$(0.02 )	\$0.03
Diluted (loss) earnings per common share:		
Net (loss) income per share attributable to common shareholders	\$(0.02 )	\$0.03

For the three months ended March 31, 2014, the Company recorded 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 antidilutive for the 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 calculation of diluted net loss per share for the three months ended March 31, 2014 was 3.8 million.

For the three months ended March 31, 2013, the calculation of diluted weighted average shares excludes the impact of conversion of the Company's \$316.3 million of convertible senior notes, as the initial conversion price of approximately \$29.325 per share was higher than the average trading price of the Company's common stock making the instruments anti-dilutive. As of March 31, 2014 and 2013, the maximum number of shares issuable upon conversion of the notes is approximately 13.8 million (after giving effect to additional make-whole shares issuable

upon conversion in connection with the occurrence of certain events); however it is the Company's current intent and policy to settle the principal amount of the notes in cash upon conversion. The maximum number of shares issuable upon conversion of the notes in excess of the amount of principal that would be settled in cash is approximately 3.0 million. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock, as the initial strike price of \$40.25 per share was higher than the average trading price of the Company's common stock making the instruments anti-dilutive. As of March 31, 2014 and 2013, the number of shares issuable upon exercise of the warrants was approximately 10.8 million.

The calculation of diluted weighted average shares for the three months ended March 31, 2013 also excludes 0.5 million of performance-based restricted stock awards.

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

The Company's compensation expense recorded in connection with grants of restricted stock for the three months ended March 31, 2014 and 2013 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 Granted	Value Per Share	Total Value
Three months ended March 31, 2014	1,028	\$27.01 – \$27.18	\$27,774

#### 5. Goodwill and Other Intangible Assets, Net

The following is a summary of the carrying amount of goodwill for the three months ended March 31, 2014 and the year ended December 31, 2013 presented on an operating segment basis (dollars in thousands):

	March 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Impairment Charges and Other	Net	Gross Carrying Amount	Accumulated Impairment Charges and Other	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
Total	\$110,322	\$ (769)	) \$109,553	\$110,322	\$ (769)	) \$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 three months ended March 31, 2014.



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 three months ended March 31, 2014. The following is a summary of other intangible assets at March 31, 2014 and December 31, 2013 (dollars in thousands):

	March 31, 2014			December 31, 2013		
	Gross		Net	Gross		Net
	Carrying Amount	Accumulated Amortization		Carrying Amount	Accumulated Amortization	
Community purchase options	\$147,610	\$ (25,886 )	\$121,724	\$147,610	\$ (24,961 )	\$122,649
Health care licenses	34,499	—	34,499	33,853	—	33,853
Other	3,331	(1,351 )	1,980	3,331	(1,076 )	2,255
Total	\$185,440	\$ (27,237 )	\$158,203	\$184,794	\$ (26,037 )	\$158,757

Amortization expense related to definite-lived intangible assets for the three months ended March 31, 2014 and 2013 was \$1.2 million and \$1.1 million, respectively. Health care licenses were determined to be indefinite-lived intangible assets and are not subject to amortization.

#### 6. 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):

	March 31, 2014	December 31, 2013
Land	\$302,829	\$302,444
Buildings and improvements	3,534,972	3,508,693
Leasehold improvements	60,963	59,948
Furniture and equipment	646,494	623,352
Resident and leasehold operating intangibles	435,012	435,012
Construction in progress	94,702	88,309
Assets under capital and financing leases	702,459	699,973
	5,777,431	5,717,731
Accumulated depreciation and amortization	(1,891,040)	(1,822,256)
Property, plant and equipment and leasehold intangibles, net	\$3,886,391	\$3,895,475

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. No indicators of impairment were present during the three months ended March 31, 2014.

## 7. Debt

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

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

	March 31, 2014	December 31, 2013
Mortgage notes payable due 2016 through 2023; weighted average interest rate of 4.10% for the three months ended March 31, 2014, net of debt premium of \$1.2 million (weighted average interest rate of 4.12% in 2013)	\$2,028,504	\$2,037,649
Capital and financing lease obligations payable through 2026; weighted average interest rate of 8.10% for the three months ended March 31, 2014 (weighted average interest rate of 8.14% in 2013)	293,027	299,824
Convertible notes payable in aggregate principal amount of \$316.3 million, less debt discount of \$52.2 million and \$54.8 million at March 31, 2014 and December 31, 2013, respectively, interest at 2.75% per annum, due June 2018	264,094	261,443
Construction financing due 2017 through 2027; weighted average interest rate of 6.32% for the three months ended March 31, 2014 (weighted average interest rate of 6.22% in 2013)	19,470	4,476
Notes payable issued to finance insurance premiums, weighted average interest rate of 2.65% for the three months ended March 31, 2014 (weighted average interest rate of 2.65% in 2013), due 2014	4,312	3,186
Total debt	2,609,407	2,606,578
Less current portion	65,245	201,954
Total long-term debt	\$2,544,162	\$2,404,624

## 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 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 provided an option to increase the committed amount initially from \$230.0 million to \$250.0 million, which the Company exercised on June 28, 2013, and provides an additional option to increase the committed amount 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 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. The amended credit agreement was further amended and restated effective September 20, 2013 to, among other things, incorporate a \$25.0 million swingline feature to permit same-day borrowing.

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 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.

12

---

As of March 31, 2014, the Company had an available secured line of credit with a commitment and available amount of \$250.0 million (of which \$25.0 million had been drawn as of such date). The Company also had secured and unsecured letter of credit facilities of up to \$84.5 million in the aggregate as of March 31, 2014. Letters of credit totaling \$71.7 million had been issued under these facilities as of that date.

#### Financings

On April 9, 2014, the Company obtained \$146.0 million in loans, secured by first mortgages on 20 communities. The loans bear interest at a fixed rate of 4.77% and mature in May 2021. Proceeds of the loans were used to refinance \$140.0 million of mortgage debt that was scheduled to mature in November 2014.

As of March 31, 2014, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

#### 8. 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.

#### Stockholder Litigation

In connection with the Merger (as discussed in Note 13), three purported class action lawsuits have been filed on behalf of stockholders of Emeritus Corporation ("Emeritus") in the Superior Court of King County, Washington: Tampa Maritime Association/International Longshoremen's Association Pension Fund v. Emeritus Corp., et al., Case No. 14-2-06385-7-SEA, filed February 28, 2014; Sciabacucchi v. Emeritus Corp., et al., Case No. 14-2-06946-4-SEA, filed March 6, 2014; and Ellerson v. Emeritus Corp., et al., Case No. 14-2-07502-2-SEA, filed March 14, 2014. It is possible that other related suits could subsequently be filed. The allegations in the three lawsuits are similar. They purport to be brought as class actions on behalf of all stockholders of Emeritus. The complaints name as defendants Emeritus, the Emeritus board of directors, Brookdale and Merger Sub (as defined herein). The complaints allege that the Emeritus board of directors breached its fiduciary duties to Emeritus stockholders by, among other things, failing to maximize stockholder value in connection with the Merger or to engage in a fair sale process before approving the Merger. Specifically, the complaints allege that the Emeritus board of directors undervalued Emeritus in connection with the Merger and that the Emeritus board of directors agreed to certain deal protection mechanisms that precluded Emeritus from obtaining competing offers. The Sciabacucchi complaint also alleges that the Emeritus board of directors breached its fiduciary duties by failing to disclose all material information concerning the Merger to Emeritus' stockholders. The three complaints also allege that Brookdale, Emeritus and Merger Sub aided and abetted the Emeritus board of directors' alleged breaches of fiduciary duties. The complaints seek, among other things, injunctive relief, including rescission of the Merger, and damages, including counsel fees and expenses. On April 30, 2014, the court consolidated the three lawsuits, relieved all defendants of the need to respond to the three filed complaints, and ordered plaintiffs to file a consolidated and amended complaint as soon as practicable after a registration statement is filed with the Securities and Exchange Commission in connection with the Merger. On May 6, 2014, the court appointed co-lead plaintiffs and co-lead and liaison counsel for plaintiffs in the consolidated proceeding.

9. Supplemental Disclosure of Cash Flow Information

(dollars in thousands):	Three Months	
	Ended	
	March 31,	
	2014	2013
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$28,059	\$29,027
Income taxes paid	\$268	\$341

## 10. 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 Ended March 31,	
	2014	2013
Cash basis payment	\$71,185	\$69,364
Straight-line expense	(223 )	748
Amortization of deferred gain	(1,093 )	(1,093 )
Facility lease expense	\$69,869	\$69,019

## 11. Income Taxes

The difference in the Company's effective tax rates for the three months ended March 31, 2014 and 2013 was primarily due to changes in the Company's 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 continues to maintain that the deferred tax assets recorded as of March 31, 2014, primarily related to net operating losses generated prior to December 31, 2010, are not more likely than not to be realized based on the reversal of deferred tax liabilities recorded. However, if the Company continues its current trend of improved GAAP earnings before taxes, this valuation allowance may be reduced in future periods.

The Company recorded interest charges related to its tax contingency reserve for cash tax positions for the three months ended March 31, 2014. Tax returns for years 2010 through 2012 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

## 12. Segment Information

The Company currently has six reportable segments: retirement centers; assisted living; CCRCs – rental; CCRCs – entry fee; Brookdale Ancillary Services; 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.

During the three months ended March 31, 2014, two communities moved between segments to more accurately reflect the underlying product offering of the communities. The movement did not change the Company's reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers and Assisted Living segments. Revenue and expenses for the three months ended March 31, 2013 have not been recast.

**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.

14

---

Brookdale Ancillary Services. The Company's Brookdale Ancillary Services 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 Brookdale Ancillary Services 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.

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 March 31,	
	2014	2013
Revenue <sup>(1)</sup>		
Retirement Centers	\$ 132,349	\$ 128,922
Assisted Living	277,431	260,615
CCRCs - Rental	97,944	100,327
CCRCs - Entry Fee	79,169	74,308
Brookdale Ancillary Services	63,417	60,198
Management Services <sup>(2)</sup>	96,965	87,896
	\$ 747,275	\$ 712,266
Segment operating income <sup>(3)</sup>		
Retirement Centers	\$ 56,230	\$ 53,334
Assisted Living	104,992	96,285
CCRCs - Rental	26,830	29,077
CCRCs - Entry Fee	19,635	19,571
Brookdale Ancillary Services	12,753	13,100
Management Services	7,402	7,609
	227,842	218,976
General and administrative (including non-cash stock-based compensation expense)	55,509	46,611
Facility lease expense	69,869	69,019
Depreciation and amortization	70,316	64,659
Income from operations	\$ 32,148	\$ 38,687

	As of	
	March 31,	December 31,
	2014	2013
Total assets		
Retirement Centers	\$ 1,223,538	\$ 1,258,294
Assisted Living	1,544,188	1,514,385
CCRCs - Rental	497,795	499,873



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

CCRCs - Entry Fee	953,324	960,708
Brookdale Ancillary Services	94,683	94,986
Corporate and Management Services	406,080	409,511
Total assets	\$4,719,608	\$4,737,757

(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).

15

---

### 13. The Pending Merger

On February 20, 2014, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Emeritus Corporation, a Washington corporation, and Broadway Merger Sub Corporation, a Delaware corporation and a wholly owned subsidiary of the Company ("Merger Sub"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into Emeritus (the "Merger"), with Emeritus continuing as the surviving corporation and a wholly owned subsidiary of the Company. Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of common stock, par value \$0.0001 per share ("Emeritus Common Stock"), of Emeritus (including each restricted share of Emeritus Common Stock, but not including any shares (x) held by the Company or Emeritus or any of the Company's or Emeritus' wholly owned subsidiaries and (y) with respect to which appraisal rights are properly demanded and not withdrawn under Washington law ("Dissenting Shares")), will be automatically converted into the right to receive 0.95 of a share (the "Exchange Ratio") of the Company's common stock.

The Merger Agreement provides that each option to purchase Emeritus Common Stock, whether vested or unvested (an "Emeritus Option"), will be canceled at the effective time of the Merger. Any Emeritus Option with an exercise price that is less than the implied dollar value of the per share consideration to be received in the Merger (valuing the Company's common stock at its volume weighted average price over the 10 trading days preceding the consummation of the Merger) will be converted into the right to receive a number of shares of the Company's common stock (net of any required withholding taxes) equal to the product of (x) the number of shares of Emeritus Common Stock subject to the Emeritus Option multiplied by (y) the excess of the implied dollar value of the per share consideration (based on the volume weighted average described above) over the exercise price of the Emeritus Option. Any Emeritus Option with an exercise price that is equal to or greater than the implied dollar value of the per share consideration to be received in the Merger as described above will be canceled without the payment of any consideration.

The consummation of the Merger is subject to satisfaction or waiver of certain conditions, including, among others: (i) the approval of the Company's and Emeritus' stockholders; (ii) the absence of any law or order prohibiting the closing; (iii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iv) the receipt of certain federal and state government approvals necessary for the ownership, operation and management of Emeritus' senior living facilities and expiration of notice periods for the same, subject to certain exceptions; (v) the continuing effectiveness or receipt, as applicable, of certain third-party consents, subject to certain exceptions; (vi) the accuracy of each party's representations and warranties, subject to certain materiality qualifiers; (vii) the performance in all material respects of each party's obligations under the Merger Agreement; (viii) no more than 7.5% of the shares of Emeritus Common Stock being Dissenting Shares; and (ix) the absence of any change, event or development that would reasonably be expected to have either a Parent Material Adverse Effect or a Company Material Adverse Effect (each as defined in the Merger Agreement). On March 12, 2014, each of the Company and Emeritus filed a Notification and Report Form under the HSR Act with the Antitrust Division and the FTC, which filings started the 30-day waiting period required by the HSR Act. The waiting period expired on April 11, 2014, thus satisfying one of the conditions to completion of the Merger. The Merger is expected to close during the third quarter of 2014, although there can be no assurance that the Merger will close or, if it does, when the actual closing will occur.

### 14. Subsequent Events

On April 23, 2014, the Company and HCP, Inc., a Maryland corporation ("HCP"), entered into a Master Contribution and Transactions Agreement (the "Master Agreement"). At the closing contemplated by the Master Agreement (the "Closing"), the Company and HCP will enter into two joint venture transactions and amend the terms of certain existing agreements between the Company and HCP and/or certain of their respective affiliates, and between Emeritus and HCP and/or certain of their respective affiliates. At the Closing, the Company and HCP will enter into a joint venture ("CCRCs JV") with respect to certain continuing care retirement / entrance fee communities currently owned

by HCP or the Company and leased and/or operated by the Company. The Company will own a 51% ownership interest, and HCP will own a 49% ownership interest in the CCRCs JV. Additionally at the Closing, the Company and HCP will enter into a joint venture ("RIDEA JV") with respect to certain independent living, assisted living, memory care and/or skilled nursing care communities currently owned by HCP and leased and operated by Emeritus. The Company will own a 20% ownership interest, and HCP will own an 80% ownership interest in the RIDEA JV. Lastly, at the Closing, the Company and HCP will amend and restate certain triple net leases ("NNN-Leased Portfolio") between Emeritus and affiliates of HCP in respect of 153 communities, which amended and restated leases will provide for the creation of multiple pools of master leases. The amended and restated leases will provide for lower future rent payments and escalations compared to the existing leases. HCP has agreed to make available up to \$100 million for capital expenditures related to the communities in the NNN-Leased Portfolio during calendar years 2014 through 2017 at an initial lease rate of 7.0%. In connection with the transactions contemplated by the Master Agreement, the Company and HCP have also agreed that the Company will waive the purchase option rights granted by HCP to Emeritus pursuant to 49 of the existing Emeritus leases. The Closing is subject to a number of conditions, including the prior or concurrent closing of the Merger between the Company and Emeritus.

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 (including statements with respect to the Merger and the transactions contemplated by the Master Agreement (each as defined herein)) 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 our operational initiatives and growth strategies 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, development and construction 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 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; our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein); and our expectations regarding the Merger and the transactions contemplated by the Master Agreement. 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 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 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; risks relating to the Merger and the transactions contemplated by the Master Agreement, including in respect of the satisfaction of closing conditions to such transactions; unanticipated difficulties and/or expenditures relating to such transactions; the risk that regulatory approvals required for such transactions are not obtained or are obtained subject to conditions that are not anticipated; uncertainties as to the timing of such transactions; litigation relating to such transactions; the impact of such transactions on relationships with residents, employees and third parties; and the inability to obtain, or delays in obtaining cost savings and synergies from such transactions; as well as 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, 2013 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.

17

---

## Executive Overview

On February 20, 2014, we entered into an Agreement and Plan of Merger with Emeritus Corporation providing for the merger of Emeritus with one of our wholly owned subsidiaries, with Emeritus continuing as the surviving corporation and our wholly owned subsidiary. See "Item 1. Business — Overview — The Pending Merger" included in our Annual Report on Form 10-K for the year ended December 31, 2013. On April 23, 2014, we entered into a Master Contribution and Transactions Agreement (the "Master Agreement") with HCP, Inc., a Maryland corporation ("HCP"). Contingent upon the prior or concurrent closing of the Merger with Emeritus, we and HCP will enter into two joint venture transactions and amend the terms of certain of our existing agreements with HCP and/or certain of its affiliates, and certain existing agreements between Emeritus and HCP and/or certain of their respective affiliates. See note 14.

During the three months ended March 31, 2014, we continued to make progress in implementing our long-term growth strategy. 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) growth through strategic capital allocation; (iii) growth through development of a market leading Brookdale brand; and (iv) growth through innovation of product offerings, including our Brookdale Ancillary Services programs.

The table below presents a summary of our operating results and certain other financial metrics for the three months ended March 31, 2014 and 2013 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Three Months		Increase		
	Ended March 31, 2014	2013	Amount	Percent	
Total revenues	\$747.3	\$712.3	\$35.0	4.9	%
Net (loss) income	\$(2.3 )	\$3.6	\$(5.9 )	(164.6	%)
Adjusted EBITDA	\$108.0	\$110.3	\$(2.3 )	(2.1	%)
Cash From Facility Operations	\$67.5	\$67.8	\$(0.4 )	(0.6	%)
Facility Operating Income	\$213.2	\$204.2	\$9.0	4.4	%

Adjusted EBITDA and Facility Operating Income are non-GAAP financial measures we use in evaluating our operating performance. Cash From Facility Operations is a non-GAAP financial measure we use in evaluating our liquidity. See "Non-GAAP Financial Measures" below for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, a reconciliation of net (loss) income 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 three months ended March 31, 2014, we experienced an increase in our total revenues, primarily due to increases in average monthly revenue per unit and our ancillary services revenue. Total revenues for the three months ended March 31, 2014 increased to \$747.3 million, an increase of \$35.0 million, or 4.9%, over our total revenues for the three months ended March 31, 2013. Resident fees for the three months ended March 31, 2014 increased \$25.9 million, or 4.2% from the prior year period. Management fees decreased \$0.2 million, or 2.7%, from the prior year period, and reimbursed costs incurred on behalf of managed communities increased \$9.3 million, or 11.6%.

The increase in resident fees during the three months ended March 31, 2014 was primarily a result of a 2.7% increase in senior housing average monthly revenue per unit compared to the prior year period, an increase in occupancy, an increase in revenues from our ancillary services programs, and the inclusion of revenue from communities acquired

since the end of the first quarter of 2013. Our weighted average occupancy rate for the three months ended March 31, 2014 and 2013 was 88.6% and 88.5%, respectively. The increase in our senior housing average monthly revenue per unit 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 three months ended March 31, 2014, we continued efforts to control our cost growth. Facility operating expenses for the three months ended March 31, 2014 were \$429.9 million, an increase of \$16.9 million, or 4.1%, as compared to the three months ended March 31, 2013.

Net loss for the three months ended March 31, 2014 was \$2.3 million, or \$(0.02) per basic and diluted common share, compared to net income of \$3.6 million, or \$0.03 per basic and diluted common share, for the three months ended March 31, 2013.

During the three months ended March 31, 2014, our Adjusted EBITDA and Cash From Facility Operations decreased by 2.1% and 0.6%, respectively, and Facility Operating Income increased by 4.4%, when compared to the three months ended March 31, 2013. Adjusted EBITDA and CFFO include integration, transaction-related and electronic medical records ("EMR") roll-out costs of \$11.8 million for the three months ended March 31, 2014 and \$2.1 million for the three months ended March 31, 2013.

18

---

## Consolidated Results of Operations

## Three Months Ended March 31, 2014 and 2013

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.

During the three months ended March 31, 2014, two communities moved between segments to more accurately reflect the underlying product offering of the communities. The movement did not change the Company's reportable segments, but it did impact the revenues, expenses and operating data reported within the Retirement Centers and Assisted Living segments. Revenue, expenses and operating data for the three months ended March 31, 2013 have not been recast.

(dollars in thousands, except average monthly revenue per unit)	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	2014	2013			
Statement of Operations Data:					
Revenue					
Resident fees					
Retirement Centers	\$132,349	\$128,922	\$ 3,427	2.7	%
Assisted Living	277,431	260,615	16,816	6.5	%
CCRCs – Rental	97,944	100,327	(2,383 )	(2.4	%)
CCRCs – Entry Fee	79,169	74,308	4,861	6.5	%
Brookdale Ancillary Services	63,417	60,198	3,219	5.3	%
Total resident fees	650,310	624,370	25,940	4.2	%
Management services <sup>(1)</sup>	96,965	87,896	9,069	10.3	%
Total revenue	747,275	712,266	35,009	4.9	%
Expense					
Facility operating expense					
Retirement Centers	76,119	75,588	531	0.7	%
Assisted Living	172,439	164,330	8,109	4.9	%
CCRCs – Rental	71,114	71,250	(136 )	(0.2	%)
CCRCs – Entry Fee	59,534	54,737	4,797	8.8	%
Brookdale Ancillary Services	50,664	47,098	3,566	7.6	%
Total facility operating expense	429,870	413,003	16,867	4.1	%
General and administrative expenses	55,509	46,611	8,898	19.1	%
Facility lease expense	69,869	69,019	850	1.2	%
Depreciation and amortization	70,316	64,659	5,657	8.7	%
Costs incurred on behalf of managed communities	89,563	80,287	9,276	11.6	%
Total operating expense	715,127	673,579	41,548	6.2	%
Income from operations	32,148	38,687	(6,539 )	(16.9	%)
Interest income	321	303	18	5.9	%
Interest expense					
Debt	(29,998 )	(30,971 )	(973 )	(3.1	%)
Amortization of deferred financing costs and debt discount	(4,018 )	(4,569 )	(551 )	(12.1	%)
Change in fair value of derivatives	(847 )	135	982	727.4	%
Equity in earnings of unconsolidated ventures	636	115	521	453.0	%



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

Other non-operating income	465	1,006	(541	)	(53.8	%)		
(Loss) income before income taxes	(1,293	)	4,706	(5,999	)	(127.5	%)	
Provision for income taxes	(1,006	)	(1,148	)	(142	)	(12.4	%)
Net (loss) income	\$(2,299	)	\$3,558	\$ (5,857	)	(164.6	%)	

19

---

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

	Three Months Ended March 31,		Increase (Decrease)	% Increase (Decrease)
	2014	2013		
<b>Selected Operating and Other Data:</b>				
Total number of communities (period end)	647	649	(2 )	(0.3 %)
Total units operated <sup>(2)</sup>				
Period end	65,584	66,127	(543 )	(0.8 %)
Weighted average	65,720	66,067	(347 )	(0.5 %)
Owned/leased communities units <sup>(2)</sup>				
Period end	48,600	47,850	750	1.6 %
Weighted average	48,580	47,953	627	1.3 %
Owned/leased communities occupancy rate (weighted average)	88.6 %	88.5 %	0.1 %	0.1 %
Senior Housing average monthly revenue per unit <sup>(3)</sup>	\$4,491	\$4,375	\$ 116	2.7 %
<b>Selected Segment Operating and Other Data:</b>				
<b>Retirement Centers</b>				
Number of communities (period end)	74	76	(2 )	(2.6 %)
Total units <sup>(2)</sup>				
Period end	14,161	14,429	(268 )	(1.9 %)
Weighted average	14,161	14,429	(268 )	(1.9 %)
Occupancy rate (weighted average)	89.3 %	89.5 %	(0.2 %)	(0.2 %)
Senior Housing average monthly revenue per unit <sup>(3)</sup>	\$3,490	\$3,328	\$ 162	4.9 %
<b>Assisted Living</b>				
Number of communities (period end)	440	431	9	2.1 %
Total units <sup>(2)</sup>				
Period end	22,440	21,446	994	4.6 %
Weighted average	22,435	21,556	879	4.1 %
Occupancy rate (weighted average)	89.6 %	89.1 %	0.5 %	0.6 %
Senior Housing average monthly revenue per unit <sup>(3)</sup>	\$4,599	\$4,523	\$ 76	1.7 %
<b>CCRCs - Rental</b>				
Number of communities (period end)	26	27	(1 )	(3.7 %)
Total units <sup>(2)</sup>				
Period end	6,470	6,688	(218 )	(3.3 %)
Weighted average	6,457	6,687	(230 )	(3.4 %)
Occupancy rate (weighted average)	86.6 %	87.6 %	(1.0 %)	(1.1 %)
Senior Housing average monthly revenue per unit <sup>(3)</sup>	\$5,839	\$5,709	\$ 130	2.3 %
<b>CCRCs - Entry Fee</b>				
Number of communities (period end)	15	14	1	7.1 %
Total units <sup>(2)</sup>				
Period end	5,529	5,287	242	4.6 %
Weighted average	5,527	5,281	246	4.7 %
Occupancy rate (weighted average)	84.7 %	84.6 %	0.1 %	0.1 %
Senior Housing average monthly revenue per unit <sup>(3)</sup>	\$5,124	\$5,011	\$ 113	2.3 %
<b>Other Entry Fee Data</b>				
Non-refundable entrance fees sales	\$9,035	\$9,237	\$ (202 )	(2.2 %)
Refundable entrance fees sales <sup>(4)</sup>	5,924	7,636	(1,712 )	(22.4 %)
Total entrance fee receipts	14,959	16,873	(1,914 )	(11.3 %)

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

Refunds	(8,446)	(9,320)	(874)	(9.4)	(%)
Net entrance fees	\$6,513	\$7,553	\$(1,040)	(13.8)	(%)

---

20

Management Services

Number of communities (period end)	92	101	(9 )	(8.9 %)
Total units <sup>(2)</sup>				
Period end	16,984	18,277	(1,293)	(7.1 %)
Weighted average	17,140	18,114	(974 )	(5.4 %)
Occupancy rate (weighted average)	86.3 %	84.9 %	1.4 %	1.6 %

Brookdale Ancillary Services

Outpatient Therapy treatment codes	812,632	821,308	(8,676)	(1.1 %)
Home Health average census	5,084	4,289	795	18.5 %

(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 Brookdale Ancillary Services segment revenue, divided by average occupied units.

(4) Refundable entrance fee sales for the three months ended March 31, 2014 and 2013 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled \$0.3 million and \$1.8 million for the three months ended March 31, 2014 and 2013, respectively.

As of March 31, 2014, our total operations included 647 communities with a capacity to serve 66,324 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, an increase in occupancy and the inclusion of revenue from recent acquisitions. During the current period, revenues grew 2.9% at the 523 communities we operated during both periods with a 2.7% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy increased 0.1% in these communities period over period.

Retirement Centers revenue increased \$3.4 million, or 2.7%, primarily due to an increase in average monthly revenue per unit at the communities we operated during both periods. The increase was partially offset by the impact of the reclassification of two communities out of this segment and into the Assisted Living segment during the current period.

Assisted Living revenue increased \$16.8 million, or 6.5%, primarily due to the inclusion of revenue from communities acquired after the prior year period, as well as increases in average monthly revenue per unit and occupancy at the communities we operated during both periods. Additionally, revenue increased due to the impact of the reclassification of two communities from the Retirement Centers segment into this segment during the current period.

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

CCRCs - Rental revenue decreased \$2.4 million, or 2.4%, primarily due to the impact of the disposition of one community after the prior year period and a decrease in occupancy at the communities we operated during both periods, partially offset by an increase in average monthly revenue per unit at the communities we operated during both periods.

CCRCs - Entry Fee revenue increased \$4.9 million, or 6.5%, primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both periods and the inclusion of revenue from a community acquired after the prior year period.

21

---

Brookdale Ancillary Services revenue increased \$3.2 million, or 5.3%, primarily due to increased home health average census and the roll-out of our hospice services to additional units subsequent to the prior year period. The increase was partially offset by a decrease in therapy service volume and the impact of reimbursement changes.

#### Management Services

Management services revenue, including reimbursed costs incurred on behalf of managed communities, increased \$9.1 million, or 10.3%, primarily due to additional costs incurred on behalf of managed communities resulting from increases in salaries and wages and occupancy increases at the communities operated in both periods. The increase was partially offset by the impact of the acquisition of previously managed communities and the termination of management agreements subsequent to the end of the prior year period.

#### Facility Operating Expense

Facility operating expense increased over the prior-year period primarily due to increases in salaries and wages, utilities and grounds maintenance expenses due to weather, costs incurred in connection with the continued expansion of our ancillary services programs and the inclusion of expenses from recent acquisitions.

Retirement Centers operating expenses increased \$0.5 million, or 0.7%, primarily driven by an increase in salaries and wages due to wage rate increases and an increase in utilities expense. The increase was partially offset by the impact of the reclassification of two communities out of this segment and into the Assisted Living segment during the current period.

Assisted Living operating expenses increased \$8.1 million, or 4.9%, primarily driven by the inclusion of operating expenses from communities acquired after the prior year period as well as increases in salaries and wages due to wage rate increases and expenses incurred for utilities and grounds maintenance due to weather. Additionally, expenses increased due to the impact of the reclassification of two communities from the Retirement Centers segment into this segment during the current period.

CCRCs - Rental operating expenses decreased \$0.1 million, or 0.2%, primarily due to the impact of the disposition of one community after the prior year period. The decrease was partially offset by an increase in salaries and wages due to wage rate increases.

CCRCs - Entry Fee operating expenses increased \$4.8 million, or 8.8%, primarily driven by an increase in salaries and wages due to wage rate increases and increases in hours worked period over period and the inclusion of operating expenses from a community acquired after the prior year period.

Brookdale Ancillary Services operating expenses increased \$3.6 million, or 7.6%, primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, partially offset by a decrease in bad debt expense.

### General and Administrative Expense

General and administrative expense increased \$8.9 million, or 19.1%, primarily as a result of transaction-related costs associated with the Merger, partially offset by a decrease in salaries and wage expense. 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 4.4% and 4.8% for the three months ended March 31, 2014 and 2013, respectively, calculated as follows (dollars in thousands):

	Three Months Ended March 31,			
	2014		2013	
Resident fee revenues	\$650,310	79.4 %	\$624,370	79.2 %
Resident fee revenues under management	168,615	20.6 %	163,507	20.8 %
Total	\$818,925	100.0%	\$787,877	100.0%
General and administrative expenses (excluding non-cash stock-based compensation expense and integration, transaction-related and EMR roll-out costs)	\$36,154	4.4 %	\$37,612	4.8 %
Non-cash stock-based compensation expense	7,572	0.9 %	6,894	0.9 %
Integration, transaction-related and EMR roll-out costs	11,783	1.4 %	2,105	0.3 %
General and administrative expenses (including non-cash stock-based compensation expense and integration, transaction-related and EMR roll-out costs)	\$55,509	6.8 %	\$46,611	5.9 %

### Facility Lease Expense

Facility lease expense remained relatively constant period over period.

### Depreciation and Amortization

Depreciation and amortization expense increased \$5.7 million, or 8.7%, primarily due to acquisitions and the completion of community expansion, renovation, redevelopment and repositioning projects subsequent to the prior year period.

### Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$9.3 million, or 11.6%, primarily due to additional costs resulting from increases in salaries and wages and occupancy increases at the communities operated in both periods. The increase was partially offset by the impact of the acquisition of previously managed communities and the termination of management agreements subsequent to the end of the prior year period.

### Interest Expense

Interest expense remained relatively constant period over period.

### Income Taxes

The difference in our effective tax rates for the three months ended March 31, 2014 and 2013 was primarily due to changes in our financial results under generally accepted accounting principles. Tax expense primarily reflects our cash tax position for states that do not allow for or have suspended the use of net operating losses for the period. We

recorded a valuation allowance against deferred tax benefits generated during the three months ended March 31, 2014 and 2013. As of March 31, 2014, we have a valuation allowance against deferred tax assets of approximately \$73.9 million. When we determine that it is more likely than not that we will be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would be made and reflected in income. This determination will be made by considering various factors, including the reversal of existing temporary differences, tax planning strategies and estimates of future taxable income exclusive of the reversal of temporary differences.

23

---



## Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2014	2013
Cash provided by operating activities	\$52,696	\$64,485
Cash used in investing activities	(53,522)	(58,162)
Cash used in financing activities	(11,984)	(47,321)
Net decrease in cash and cash equivalents	(12,810)	(40,998)
Cash and cash equivalents at beginning of period	58,511	69,240
Cash and cash equivalents at end of period	\$45,701	\$28,242

The decrease in cash provided by operating activities was attributable to increased general and administrative expenses, which include integration and transaction-related costs.

The decrease in cash used in investing activities was primarily attributable to a decrease in investments in unconsolidated ventures and a reduction in restricted cash and escrow deposits, partially offset by an increase in spending on property, plant, equipment, and leasehold intangibles.

The decrease in cash used in financing activities period over period was primarily attributable to net repayment of debt, including our line of credit.

Our principal sources of liquidity have historically been from:

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

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

Our liquidity requirements have historically arisen from:

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

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

working capital;  
operating costs such as employee compensation and related benefits, general and administrative expense and supply costs;  
debt service and lease payments;  
capital expenditures and improvements, including the expansion, renovation, redevelopment and repositioning of our current communities and the development of new communities;  
other corporate initiatives (including information systems and branding); and  
acquisition consideration and transaction costs (including transaction and integration related costs associated with the Merger and the transactions contemplated by the Master Agreement).

We are highly leveraged and have significant debt and lease obligations. As of March 31, 2014, we have three principal corporate-level debt obligations: our \$250.0 million revolving credit facility, our \$316.3 million convertible senior notes due 2018 and separate secured and unsecured letter of credit facilities providing for up to \$92.5 million of letters of credit in the aggregate. The remainder of our indebtedness is generally comprised of non-recourse property-level mortgage financings.

At March 31, 2014, we had \$2.3 billion of debt outstanding, excluding capital lease obligations and our line of credit, at a weighted-average interest rate of 4.5% (calculated using an imputed interest rate of 7.5% for our \$316.3 million convertible senior notes due 2018). At March 31, 2014, we had \$293.0 million of capital and financing lease obligations, \$25.0 million was drawn on our revolving loan facility, and \$71.7 million of letters of credit had been issued under our letter of credit facilities. Approximately \$65.2 million of our debt and capital lease obligations are due on or before March 31, 2015. We also have substantial operating lease obligations and capital expenditure requirements. For the year ending March 31, 2015, we will be required to make approximately \$286.3 million of payments in connection with our existing operating leases.

We had \$45.7 million of cash and cash equivalents at March 31, 2014, excluding cash and escrow deposits-restricted and lease security deposits of \$129.8 million in the aggregate. As of that date, we also had \$250.0 million of availability on our revolving credit facility (of which \$25.0 million had been drawn as of March 31, 2014).

At March 31, 2014, we had \$422.7 million of negative working capital, which includes the classification of \$280.6 million of refundable entrance fees as current liabilities. Based upon our historical operating experience, we anticipate that only 9.0% to 12.0% of the refundable entrance fee liabilities will actually come due, and be required to be settled in cash, during the next 12 months. We expect that any entrance fee liabilities due within the next 12 months will be

fully offset by the proceeds generated by subsequent entrance fee sales. Entrance fee sales, net of refunds paid, provided \$6.5 million of cash for the three months ended March 31, 2014.

25

---

For the year ending December 31, 2014, we anticipate that we will make investments of approximately \$165.0 million to \$180.0 million for net capital expenditures on our current portfolio (excluding expenditures related to our Program Max initiative discussed below), comprised of approximately \$40.0 million to \$45.0 million of net recurring capital expenditures and approximately \$125.0 million to \$135.0 million of expenditures relating to other major projects (including corporate initiatives). These major projects include unusual or non-recurring capital projects, projects which create new or enhanced economics, such as major renovations or repositioning projects at our communities, integration related expenditures (including the cost of developing information systems), and expenditures supporting the expansion of our ancillary services programs. For the three months ended March 31, 2014, we spent approximately \$9.4 million for net recurring capital expenditures and approximately \$27.3 million for expenditures relating to other major projects and corporate initiatives.

In addition, we have increased our efforts with respect to the expansion, redevelopment and repositioning of our communities through our Program Max initiative. We anticipate making net investments of approximately \$55.0 million to \$65.0 million during 2014 in connection with recently initiated or currently planned projects. For the three months ended March 31, 2014, we spent approximately \$10.7 million in connection with our Program Max initiative, net of third party lessor reimbursement.

During 2014, we anticipate that our capital expenditures will be funded from cash on hand, cash flows from operations, lessor reimbursements, amounts drawn on constructions loans, and amounts drawn on our credit facility.

As opportunities arise, we plan to continue to take advantage of the fragmented senior housing and care sectors by selectively purchasing existing operating companies, asset portfolios, home health agencies and communities. We may also seek to acquire the fee interest in communities that we currently lease or manage. We expect to continue to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, or if we enter into an acquisition or strategic arrangement with another company, we may need to sell additional equity or debt securities. Any such sale of additional equity securities will dilute the interests of our existing stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to delay, reduce the scope of, or eliminate one or more aspects of our business development activities, any of which could reduce the growth of our business.

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

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

As of March 31, 2014, we are in compliance with the financial covenants of our outstanding debt and lease agreements.

## Credit Facilities

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 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 provided an option to increase the committed amount initially from \$230.0 million to \$250.0 million, which we exercised on June 28, 2013, and provides an additional option to increase the committed amount 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 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. The amended credit agreement was further amended and restated effective September 20, 2013 to, among other things, incorporate a \$25.0 million swingline feature to permit same-day borrowing.

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. We are 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 our 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 March 31, 2014, we had an available secured line of credit with a commitment and available amount of \$250.0 million (of which \$25.0 million had been drawn as of that date). We also had secured and unsecured letter of credit facilities of up to \$84.5 million in the aggregate as of March 31, 2014. Letters of credit totaling \$71.7 million had been issued under these facilities as of that date.

## Contractual Commitments

Significant ongoing commitments consist primarily of leases, debt, purchase commitments and certain other long-term liabilities. For a summary and complete presentation and description of our ongoing commitments and contractual obligations, see the "Contractual Commitments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

There have been no material changes outside the ordinary course of business in our contractual commitments during the three months ended March 31, 2014.

## Off-Balance Sheet Arrangements

The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures that are not considered variable interest entities as we do not possess a controlling financial interest. We do not believe these off-balance sheet arrangements have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## Non-GAAP Financial Measures

A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. In this report, we define and use the non-GAAP financial measures Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income, as set forth below.

### Adjusted EBITDA

#### Definition of Adjusted EBITDA

We define Adjusted EBITDA as follows:

Net income (loss) before:

provision (benefit) for income taxes;

non-operating (income) expense items;

(gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination);

depreciation and amortization (including non-cash impairment charges);

straight-line lease expense (income);

amortization of deferred gain;

amortization of deferred entrance fees;

non-cash stock-based compensation  
expense; and

change in future service obligation;

and including:

entrance fee receipts and refunds (excluding (i) first generation entrance fee receipts from the sale of units at a recently opened entrance fee CCRC prior to stabilization and (ii) first generation entrance fee refunds not replaced by second generation entrance fee receipts at the recently opened community prior to stabilization).

### Management's Use of Adjusted EBITDA

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

28

---

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

#### Limitations of Adjusted EBITDA

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

the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.

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

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

The table below shows the reconciliation of net (loss) income to Adjusted EBITDA for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31,	
	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>
Net (loss) income	\$ (2,299 )	\$ 3,558
Provision for income taxes	1,006	1,148
Equity in earnings of unconsolidated ventures	(636 )	(115 )
Other non-operating income	(465 )	(1,006 )
Interest expense:		
Debt	23,844	24,448
Capitalized lease obligation	6,154	6,523



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

Amortization of deferred financing costs and debt discount	4,018	4,569
Change in fair value of derivatives	847	(135 )
Interest income	(321 )	(303 )
Income from operations	32,148	38,687
Depreciation and amortization	70,316	64,659
Straight-line lease expense	(223 )	748
Amortization of deferred gain	(1,093 )	(1,093 )
Amortization of entrance fees	(7,202 )	(7,133 )
Non-cash stock-based compensation expense	7,572	6,894
Entrance fee receipts <sup>(2)</sup>	14,959	16,873
Entrance fee disbursements	(8,446 )	(9,320 )
Adjusted EBITDA	\$108,031	\$110,315

29

---

(1) The calculation of Adjusted EBITDA includes integration, transaction-related and EMR roll-out costs of \$11.8 million and \$2.1 million for the three months ended March 31, 2014 and 2013, respectively.

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

#### Cash From Facility Operations

#### Definition of Cash From Facility Operations

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

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

changes in operating assets and liabilities;

deferred interest and fees added to principal;

refundable entrance fees received;

first generation entrance fee receipts at a recently opened entrance fee CCRC prior to stabilization;

entrance fee refunds disbursed adjusted for first generation entrance fee refunds not replaced by second generation entrance fee receipts at the recently opened community prior to stabilization;

lease financing debt amortization with fair market value or no purchase options;

gain (loss) on facility lease termination;

recurring capital expenditures, net;

distributions from unconsolidated ventures from cumulative share of net earnings;

CFFO from unconsolidated ventures; and

other.

30

---

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

#### Management's Use of Cash From Facility Operations

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

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

#### Limitations of Cash From Facility Operations

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

the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.

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

CFFO is not an alternative to cash flows provided by or used in operations as calculated and presented in accordance with GAAP. You should not rely on CFFO as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of CFFO to GAAP net cash provided by (used in) operating activities, along with our

condensed consolidated financial statements included herein. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because CFFO is not a measure of financial performance under GAAP and is susceptible to varying calculations, the CFFO measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

31

---

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

The table below shows the reconciliation of net cash provided by operating activities to CFFO for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31,	
	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>
Net cash provided by operating activities	\$52,696	\$64,485
Changes in operating assets and liabilities	28,558	16,446
Refundable entrance fees received <sup>(2)(3)</sup>	5,924	7,636
Entrance fee refunds disbursed	(8,446 )	(9,320 )
Recurring capital expenditures, net	(9,369 )	(9,324 )
Lease financing debt amortization with fair market value or no purchase options	(3,897 )	(3,371 )
Distributions from unconsolidated ventures from cumulative share of net earnings	(245 )	(668 )
CFFO from unconsolidated ventures	2,241	1,958
Cash From Facility Operations	\$67,462	\$67,842

(1) The calculation of Cash From Facility Operations includes integration, transaction-related and EMR roll-out costs of \$11.8 million and \$2.1 million for the three months ended March 31, 2014 and 2013, respectively.

Entrance fee receipts include promissory notes issued to the Company by the resident in lieu of a portion of the (2)entrance fees due. Collections, net of new issuances for the three months ended March 31, 2014 and 2013 were \$0.9 million and \$2.2 million, respectively.

Total entrance fee receipts for the three months ended March 31, 2014 and 2013 were \$15.0 million and \$16.9 (3)million, respectively, including \$9.0 million and \$9.2 million, respectively, of non-refundable entrance fee receipts included in net cash provided by operating activities.

#### Facility Operating Income

#### Definition of Facility Operating Income

We define Facility Operating Income as follows:

Net income (loss) before:

provision (benefit) for income taxes;

non-operating (income) expense items;

·(gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination);

depreciation and amortization (including non-cash impairment charges);

facility lease expense;

general and administrative expense, including non-cash stock-based compensation expense;

change in future service obligation;

amortization of deferred entrance fee  
revenue; and

management fees.  
32

---

## Management's Use of Facility Operating Income

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

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

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

## Limitations of Facility Operating Income

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

interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results; and

depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our communities, which affects the services we provide to our residents and may be indicative of future needs for capital expenditures.

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

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

The table below shows the reconciliation of net (loss) income to Facility Operating Income for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31,	
	2014	2013
Net (loss) income	\$ (2,299 )	\$ 3,558
Provision for income taxes	1,006	1,148
Equity in earnings of unconsolidated ventures	(636 )	(115 )
Other non-operating income	(465 )	(1,006 )
Interest expense:		
Debt	23,844	24,448
Capitalized lease obligation	6,154	6,523
Amortization of deferred financing costs and debt discount	4,018	4,569
Change in fair value of derivatives	847	(135 )
Interest income	(321 )	(303 )
Income from operations	32,148	38,687
Depreciation and amortization	70,316	64,659
Facility lease expense	69,869	69,019
General and administrative (including non-cash stock-based compensation expense)	55,509	46,611
Amortization of entrance fees	(7,202 )	(7,133 )
Management fees	(7,402 )	(7,609 )
Facility Operating Income	\$ 213,238	\$ 204,234

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

We are subject to market risks from changes in interest rates charged on our credit facilities, other floating-rate indebtedness and lease payments subject to floating rates. The impact on earnings and the value of our long-term debt and lease payments are subject to change as a result of movements in market rates and prices. As of March 31, 2014, we had approximately \$1.4 billion of long-term fixed rate debt, \$951.9 million of long-term variable rate debt, excluding our line of credit, and \$293.0 million of capital and financing lease obligations. As of March 31, 2014, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.5% (calculated using an imputed interest rate of 7.5% for our \$316.3 million convertible senior notes due 2018).

We enter into certain interest rate swap agreements with major financial institutions to manage our risk on variable rate debt. Additionally, we have entered into certain cap agreements to effectively manage our risk above certain interest rates. As of March 31, 2014, \$1.4 billion, or 60.1%, of our debt, excluding our line of credit and capital and financing lease obligations, either has fixed rates or variable rates that are subject to swap agreements. As of March 31, 2014, \$692.9 million, or 29.9%, of our debt, excluding our line of credit and capital and financing lease obligations, is subject to cap agreements. The remaining \$232.1 million, or 10.0%, of our debt is variable rate debt, not subject to any cap or swap agreements. A change in interest rates would have impacted our annual interest



expense related to all outstanding variable rate debt, excluding our line of credit and capital and financing lease obligations, as follows (after consideration of hedging instruments currently in place): a 100 basis point increase in interest rates would have an impact of \$9.4 million, a 500 basis point increase in interest rates would have an impact of \$43.1 million and a 1,000 basis point increase in interest rates would have an impact of \$55.2 million.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of March 31, 2014, our disclosure controls and procedures were effective.

##### Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

The information contained in Note 8 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

#### Item 1A. Risk Factors

The following risk factors reflect certain modifications of, or additions to, the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2013 primarily as a result of the pending Merger with Emeritus and the pending transactions with HCP contemplated by the Master Agreement.

##### Risks Related to the Merger and the Transactions Contemplated by the Master Agreement

Failure to complete the Merger and/or the transactions contemplated by the Master Agreement could negatively affect our share price, future business and financial results.

Completion of the Merger and/or the transactions contemplated by the Master Agreement is not assured and is subject to risks, including the risks that approval of the transactions by our stockholders and the stockholders of Emeritus (in the case of the Merger) or by governmental agencies will not be obtained or that certain other closing conditions will not be satisfied. If either transaction is not completed, our ongoing business and financial results may be adversely affected and we will be subject to several risks, including:

- having to pay certain significant transaction costs relating to the transaction without receiving the benefits of such transaction;

- in connection with the Merger, potentially having to pay a termination fee of \$13.5 million if our stockholder approval is not obtained or a termination fee of \$143 million in other specific circumstances, including without limitation, a change in our board of directors' recommendation to our stockholders or termination to accept an alternative takeover proposal;

- our share price may decline to the extent that the current market prices reflect an assumption by the market that such transactions will be completed; and

- we may be subject to litigation related to any failure to complete such transactions.

We will incur substantial transaction fees and costs in connection with the Merger and the transactions contemplated by the Master Agreement.

We expect to incur a significant amount of non-recurring expenses in connection with the Merger and the transactions contemplated by the Master Agreement. Additional unanticipated costs may be incurred, including, without limitation, unexpected transaction costs and other expenses in the course of the integration of our business and the business of Emeritus. We cannot be certain that the elimination of duplicative costs or the realization of other efficiencies related to the transactions will offset the transaction and integration costs in the near term, or at all.

35

---

We, Emeritus and/or HCP may be unable to obtain the regulatory approvals and third party consents required to complete the Merger and the transactions contemplated by the Master Agreement or, in order to do so, we, Emeritus and/or HCP may be required to comply with material restrictions or conditions that are not anticipated. Such unanticipated material restrictions or conditions may negatively affect the company after the transactions are completed or cause us to abandon such transactions. Failure to complete the Merger and/or the transactions contemplated by the Master Agreement could also negatively affect our future business and financial results.

Completion of the Merger and the transactions contemplated by the Master Agreement is contingent upon, among other things, the receipt of certain required regulatory approvals, including required regulatory approvals from governmental authorities necessary for the ownership, operation and management of each of the applicable facilities following closing, as well as certain third party consents. We, Emeritus and HCP can provide no assurance that all required regulatory or third party authorizations, approvals or consents will be obtained or that the authorizations, approvals or consents will not contain terms, conditions or restrictions that would be detrimental to the Company.

Delays in completing the Merger and/or the transactions contemplated by the Master Agreement may substantially reduce the expected benefits of such transactions.

Satisfying the conditions to, and completion of, the Merger and/or the transactions contemplated by the Master Agreement may take longer than, and could cost more than, we expect. Any delay in completing or any additional conditions imposed in order to complete the transactions may materially adversely affect the synergies and other benefits that we expect to achieve from such transactions. In addition, we and Emeritus each have the right to terminate the Merger Agreement if the Merger is not completed by November 20, 2014, except that such date may be extended to January 20, 2015 if the only unsatisfied conditions to the completion of the Merger are those regarding the receipt of certain regulatory and third party approvals and consents, and we and HCP each have the right to terminate the Master Agreement if the transactions contemplated thereby are not completed by December 31, 2014.

Litigation, including stockholder litigation, against Emeritus and/or us could result in an injunction preventing completion of the Merger, the payment of damages in the event the Merger is completed and/or an adverse effect on the company's business, financial condition or results of operations.

Transactions such as the Merger are often subject to lawsuits, including by stockholders.

In connection with the Merger, three purported class action lawsuits have been filed on behalf of Emeritus stockholders in the Superior Court of King County, Washington: Tampa Maritime Association/International Longshoremen's Association Pension Fund v. Emeritus Corp., et al., Case No. 14-2-06385-7-SEA, filed February 28, 2014; Sciacacchi v. Emeritus Corp., et al., Case No. 14-2-06946-4-SEA, filed March 6, 2014; and Ellerson v. Emeritus Corp., et al., Case No. 14-2-07502-2-SEA, filed March 14, 2014. It is possible that other related suits could subsequently be filed.

The allegations in the three lawsuits are similar. They purport to be brought as class actions on behalf of all stockholders of Emeritus. The complaints name as defendants Emeritus, the Emeritus board of directors, us and Merger Sub. The complaints allege that the Emeritus board of directors breached its fiduciary duties to Emeritus stockholders by, among other things, failing to maximize stockholder value in connection with the Merger or to engage in a fair sale process before approving the Merger. Specifically, the complaints allege that the Emeritus board of directors undervalued Emeritus in connection with the Merger and that the Emeritus board of directors agreed to certain deal protection mechanisms that precluded Emeritus from obtaining competing offers. The Sciacacchi complaint also alleges that the Emeritus board of directors breached its fiduciary duties by failing to disclose all material information concerning the Merger to Emeritus' stockholders. The three complaints also allege that we, Emeritus and Merger Sub aided and abetted the Emeritus board of directors' alleged breaches of fiduciary duties. The complaints seek, among other things, injunctive relief, including rescission of the Merger, and damages, including

counsel fees and expenses.

One of the conditions to the closing of the Merger is that no temporary restraining order, preliminary or permanent injunction or other judgment, order or decree issued by any court of competent jurisdiction or other law, legal restraint or prohibition will be in effect preventing the consummation of the Merger. Consequently, if any lawsuit is successful in obtaining an injunction prohibiting us or Emeritus from consummating the Merger on the agreed upon terms, the injunction may prevent the Merger from being completed within the expected timeframe, or at all. Furthermore, if the Merger is prevented or delayed, the lawsuits could result in substantial costs, including any costs associated with the indemnification of directors. The defense or settlement of any lawsuit or claim that remains unresolved at the time the Merger is completed may adversely affect the combined company's business, financial condition or results of operations.

36

---

The Merger Agreement limits our ability to pursue alternatives to the Merger, which could discourage a potential acquirer of us from making an alternative transaction proposal and, in certain circumstances, could require us to pay Emeritus a significant termination fee.

Under the Merger Agreement, we are restricted, subject to limited exceptions, from pursuing or entering into alternative transactions in lieu of the Merger. In general, unless and until the Merger Agreement is terminated, we are restricted from, among other things, soliciting, initiating, causing, knowingly encouraging or knowingly facilitating any inquiries or the making of any proposals from any person that is or is reasonably likely to lead to a takeover proposal. Our board of directors is limited in its ability to change its recommendation with respect to the Merger-related stockholder proposals. We have the right to terminate the Merger Agreement and enter into an agreement with respect to a "superior proposal" only if specified conditions have been satisfied, including compliance with the non-solicitation provisions of the Merger Agreement, the expiration of certain waiting periods that may give Emeritus an opportunity to amend the Merger Agreement so the "superior proposal" is no longer a "superior proposal" and the payment of the required termination fee. These provisions could discourage a third party that may have an interest in acquiring all or a significant part of our business from considering or proposing such an acquisition, even if such third party were prepared to pay consideration with a higher per share cash or market value than the consideration proposed to be received or realized in the Merger, or might result in a potential acquirer proposing to pay a lower price than it would otherwise have proposed to pay because of the added expense of the termination fee that may become payable.

Item 6. Exhibits

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

SIGNATURES

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

BROOKDALE SENIOR LIVING INC.  
(Registrant)

By: /s/ Mark W. Ohlendorf  
Name: Mark W. Ohlendorf  
Title: President and Chief Financial Officer  
(Principal Financial and Accounting Officer)  
Date: May 12, 2014

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of February 20, 2014, by and among Brookdale Senior Living Inc., Emeritus Corporation and Broadway Merger Sub Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 21, 2014).
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 26, 2010).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 3, 2012).
4.1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-127372) filed on November 7, 2005).
4.2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
4.3	Amendment No. 1 to Stockholders Agreement, dated as of July 25, 2006, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Registered Investment Trust, Fortress Brookdale Investment Fund LLC, FRIT Holdings LLC, and FIT Holdings LLC (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2006).
4.4	Amendment Number Two to Stockholders Agreement, dated as of November 4, 2009 (incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2009).
4.5	Letter Agreement, dated as of February 20, 2014, by and among Brookdale Senior Living Inc. and the Stockholders named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 21, 2014).
4.6	Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 14, 2011).
4.7	Supplemental Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 14, 2011).
4.8	Form of 2.75% Convertible Senior Note due 2018 (included as part of Exhibit 4.7).
10.1	Voting Agreement, dated as of February 20, 2014, by and among Brookdale Senior Living Inc. and the Shareholders named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 21, 2014).
10.2	Letter Agreement, dated as of February 20, 2014, by and among Brookdale Senior Living Inc. and the Stockholders named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 21, 2014).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.



