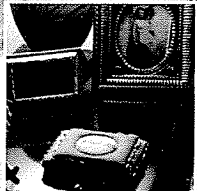
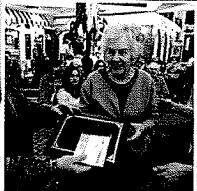





11007411




BROOKDALE®
SENIOR LIVING
2010 Annual Report



BROOKDALE®
SENIOR LIVING

Our People Make the DifferenceSM

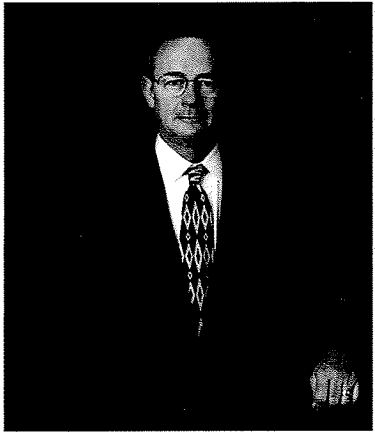
OUR MISSION

Enriching the lives of those we serve
with compassion, respect, excellence and integrity.

OUR CORNERSTONES

- Take **ownership** and **pride** in everything we do.
- Recognize that **good people** make the difference and are the key to our success.
- **Work together** as one team.
- Provide meaningful **rewards** for residents, associates and shareholders.
- Respect others through **honesty, understanding** and **trust**.
- Put the **resident first** and the "bottom line" will take care of itself.
- Have **fun** and **celebrate** life every day.

TO OUR SHAREHOLDERS



*Bill Sheriff,
Chief Executive Officer*

No one needs convincing that the long term demographic fundamentals of senior living are extremely powerful. In 2010, baby boomers started to turn 65. In 15 more years, they will create an overwhelming demand for senior housing.

Now that we have addressed that topic, let's talk about where the industry is today. Despite historical roots that go back over a hundred years, the senior living industry is still a fledgling. It experienced a boom in the mid 80's, as multi-family builders and government-sponsored funding programs focused on the rapidly growing 65-and-older demographic and responded by overbuilding independent living communities with little or no healthcare amenities. That was followed by the inevitable bust in the late 80's and early 90's. The next boom occurred in the mid-to-late 90's with the emergence of the assisted living segment of the industry and its subsequent overbuilding (we built our first assisted living assets in 1979, but that's another story). Once again, the inevitable bust then ensued in the early part of the aughts decade. The next boom to occur – from 2005 through 2007 – was different. It was actually driven by rapidly improving industry fundamentals. Greater product familiarity together with a growing demographic resulted in strong occupancy and rate growth. Once again, the ready availability of both equity and mortgage financing combined with these positive trends to drive the value of senior living assets up to hitherto unseen levels.

At this point, having witnessed two boom and bust cycles in 20 years, the market overreacted to the macro-economic downturn – the so-called Great Recession – by assuming the worst for senior housing. Equity values compressed and the consensus opinion anticipated fire-sale pricing. In fact, there were no fire-sales and asset values held up far better than expected. Today they are approaching all-time highs. Participants in the senior living industry have perhaps learned a thing or two over the years, and responded to the recessionary environment with perseverance and commitment to the value of their enterprise and mission. Our industry

provides a much-needed service, there is growing product awareness, there is strong demographic growth, and there is a marked absence of new construction. Senior living has held up in these tough times as well as any asset class and better than most. In fact, its fundamentals have never looked better.

As the largest public company operator in the senior living industry, and the provider of the broadest array of services, we definitely see ourselves as an industry leader. Almost every trend that affects senior housing and services, including phenomena that are limited to specific geographic regions, occurs somewhere in our system. If it's happening in senior living in the U.S., we are either initiating it or responding to it. And for us, 2010 was a very positive year. Our communities achieved positive trends in both occupancy and rate growth. We continued to turn in industry standard-setting results in the areas of employee retention and job satisfaction, low workers' compensation claims, and the creation and dissemination of extensive training resources and programs. And we have been able to devote our considerable cash flow in three key areas: de-levering our balance sheet, developing our systems and reinvesting in our physical assets, our communities.

As the largest operator in a fledgling industry that is evolving, it is incumbent upon us to set our own goals and continually re-examine and develop our strategic direction. *We see it as our mission to be the leading provider of wellness and healthcare solutions within the senior living industry.* As we look back at the evolution of our products and services and look forward to the growing needs of our residents, we clearly see an opportunity and a need to provide a comprehensive suite of products and services that can respond to the unique demands of aging. Providing a continuum of care and maximizing access to health and wellness services specifically designed for seniors has always been at the core of our strategy. We will continue to operate along the full continuum of care from independent living through assisted living, dementia care and skilled nursing; we will continue to build our industry leading therapy and home health services, expanding them beyond the walls of our own communities; we will develop additional ancillary services that synergize with our core business, such as hospice care and personalized living; and, most importantly, we will focus our efforts on providing our operators with the systems and support they need to provide these services at the very highest levels of consistent quality.

As we look forward, our prospects for growth are excellent. There is currently little new construction, other than expansions and limited development by regional operators, and we do not expect that to change for some time. Meanwhile, a combination of increasing population growth, continually improving product familiarity and recovering market penetration rates will drive demand. The performance of senior living assets has withstood the effects of the longest and worst down-turn in the housing market that we have ever seen. As the housing market stabilizes and begins to improve, whenever that happens, it will release years of pent-up demand and, more importantly, will restore historically significant support for the next cohort of seniors to enter congregate care settings. Occupancy levels for us and for the industry are at the point where even a modestly sustained economic recovery should support significant revenue improvement with only minimal increases in variable costs and almost no growth in fixed costs. We are anticipating this eventuality by enhancing the competitive position of our existing residences through an extensive reinvestment initiative. We refer to the initiative as Program Max, and it is designed to redevelop a significant number of our residences by adding additional levels of care, reconfiguring spaces to better fit updated health and rehabilitation service programming, and/or correcting original design flaws to better meet the needs and desires of new residents.

And as if we don't have enough potential for growth within our existing platform of residences and services, the case for industry consolidation is compelling. Sellers are returning to the marketplace after a three year hiatus and sources of capital are responding to the signs of improving fundamentals. We believe we have developed the best platform with which to support a national business operating across the continuum of senior housing types. Because we have significant scale cost advantages, unique revenue-enhancing opportunities and operating expertise in every level of care, we expect to be active in completing accretive transactions.

Hard work, dedication to service, commitment to quality, attention to detail, perseverance, trying always to do the right thing, devoting the extra time it takes to find a creative solution, humility in the face of success: these are the qualities that we want to be known for at Brookdale Senior Living. We have been fortunate to serve in the homes of what became known as The Greatest Generation, and we have learned

lessons from them that should help us to exceed the expectations of the next generations. Our residents are some of the most successful people in America, and we are honored by the opportunity we have to support them and to enhance the quality of their lives. They bring a wealth of rich and diverse experiences to our communities, and they are continuing to create the stories of their lives, facing new challenges and growing in varying ways. Aging is a challenging process that presents many difficulties, but what is not always clear in our youth-oriented culture is that it's a natural process that can and should bring in its train a profound and unique form of joy and satisfaction. Our family of residents reminds us of that every day.

A handwritten signature in cursive script that reads "Bill Sheriff".

Bill Sheriff
Chief Executive Officer

As of and for the years ended
December 31,

FINANCIAL HIGHLIGHTS
(in thousands, except per share data)

Selected Operating Data

	2010	2009
Total revenue	\$ 2,213,264	\$ 2,023,068
Income from operations	\$ 65,994	\$ 29,780
Net loss	\$ (48,901)	\$ (66,255)
Net loss per share of common stock, basic and diluted.....	\$ (0.41)	\$ (0.60)
Adjusted EBITDA ⁽¹⁾	\$ 408,494	\$ 348,555
Cash From Facility Operations ⁽²⁾	\$ 240,672	\$ 196,832
Facility Operating Income ⁽³⁾	\$ 744,282	\$ 690,069

Selected Balance Sheet Data

Property, plant and equipment and leasehold intangibles, net.....	\$ 3,736,842	\$ 3,857,774
Cash and cash equivalents.....	\$ 81,827	\$ 66,370
Total assets.....	\$ 4,530,470	\$ 4,649,879
Debt obligations	\$ 2,570,296	\$ 2,625,526
Stockholders' equity	\$ 1,059,997	\$ 1,086,582
Weighted average shares used in computing basic and diluted loss per share.....	120,010	111,288

Stock Performance Data

Closing share price on December 31, 2010	\$ 21.41	
Closing share price on December 31, 2009		\$ 18.19

(1) Adjusted EBITDA is a measure of operating performance that is not calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). Adjusted EBITDA should not be considered in isolation or as a substitute for net income, income from operations or cash flows provided by or used in operations, as determined in accordance with GAAP. Adjusted EBITDA is a key measure of the Company's operating performance used by management to focus on operating performance and management without mixing in items of income and expense that relate to long-term contracts and the financing and capitalization of the business. We define Adjusted EBITDA as net income (loss) before provision (benefit) for income taxes, non-operating (income) expense items, (gain) loss on sale of communities (including facility lease termination expense), depreciation and amortization (including non-cash impairment charges), straight-line lease expense (income), amortization of deferred gain, amortization of deferred entrance fees, non-cash compensation expense, and change in future service obligation and including entrance fee receipts and refunds (excluding first generation entrance fee receipts on a newly opened entrance fee CCRC).

(2) Cash From Facility Operations ("CFFO") is a measurement of liquidity that is not calculated in accordance with GAAP and should not be considered in isolation as a substitute for cash flows provided by or used in operations, as determined in accordance with GAAP. We define CFFO as net cash provided by (used in) operating activities adjusted for changes in operating assets and liabilities, deferred interest and fees added to principal, refundable entrance fees received, first generation entrance fee receipts on a newly opened entrance fee CCRC, entrance fee refunds disbursed, lease financing debt amortization with fair market value or no purchase options, facility lease termination expense, recurring capital expenditures, distributions from unconsolidated ventures from cumulative share of net earnings, Cash From Facility Operations from unconsolidated ventures, and other. Recurring capital expenditures include routine expenditures capitalized in accordance with GAAP that are funded from current operations. Amounts excluded from recurring capital expenditures consist primarily of major projects, renovations, community repositionings, expansions, systems projects or other non-recurring or unusual capital items (including integration capital expenditures) or community purchases that are funded using lease or financing proceeds, available cash and/or proceeds from the sale of communities that are held for sale.

(3) Facility Operating Income is not a measurement of operating performance calculated in accordance with GAAP and should not be considered in isolation as a substitute for net income, income from operations, or cash flows provided by or used in operations, as determined in accordance with GAAP. We define Facility Operating Income as net income (loss) before provision (benefit) for income taxes, non-operating (income) expense items, (gain) loss on sale of communities (including facility lease termination expense), depreciation and amortization (including non-cash impairment charges), facility lease expense, general and administrative expense, including non-cash stock compensation expense, change in future service obligation, amortization of deferred entrance fee revenue, and management fees.

Note: See enclosed Form 10-K for non-GAAP reconciliations.

CORPORATE DATA

Corporate Office

111 Westwood Place,
Suite 400
Brentwood, TN 37027
615.221.2250
www.brookdaleliving.com

Transfer Agent

American Stock Transfer &
Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
800.937.5449

Stock Listing

NYSE: BKD

Approximate Number of Record

Holders (as of April 18, 2011):
477

Investor Relations Contact

Ross Roadman
Brookdale Senior Living
111 Westwood Place,
Suite 400
Brentwood, TN 37027
615.564.8104

Independent Auditors

Ernst & Young LLP
155 N. Wacker Drive
Chicago, IL 60606

2011 Annual Meeting

June 15, 2011 • 10:00 a.m. CDT
Brookdale Senior Living
111 Westwood Place
Brentwood, TN 37027
615.221.2250

Governance

Brookdale's corporate governance guidelines, code of business conduct and ethics, the charters of the principal board committees and other governance information can be accessed through the Investor Relations portion of our website, www.brookdaleliving.com.

Forward-Looking Statements

Certain statements in this Annual Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements relating to our operational initiatives and our expectations regarding their effect on our results; our expectations regarding occupancy, revenue, cash flow, expense levels, the demand for senior housing, expansion and development activity, acquisition opportunities, asset dispositions and taxes; our belief regarding our growth prospects; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity; our plans to deleverage; our expectations regarding financings and refinancings of assets (including the timing thereof); our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health and hospice); our plans to expand, redevelop and reposition existing communities; the expected project costs for our expansion program; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income. Words such as "anticipate(s)," "expect(s)," "intend(s)," "plan(s)," "target(s)," "project(s)," "believe(s)," "will," "would," "seek(s)," "estimate(s)" and similar expressions are intended to identify such forward looking statements. We can give no assurance that our expectations will be attained. These statements are subject to a number of risks and uncertainties that could lead to actual results materially different from our expectations, which include, but are not limited to, the risk associated with the current global economic crisis and its impact upon capital markets and liquidity; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; delays in obtaining regulatory approvals; changes in governmental reimbursement programs; 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; and the other risks detailed from time to time in our filings with the SEC, including those listed under "Risk Factors" in the accompanying Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this Annual Report. We expressly disclaim any obligation to release publicly any updates or revisions to any such statements.

BOARD OF DIRECTORS

Wesley R. Edens ³, *Chairman*;
Founding Principal &
Co-Chairman of the Board,
Fortress Investment Group LLC

Frank M. Bumstead ², *Director*;
Chairman and Principal Shareholder,
Flood, Bumstead, McCready & McCarthy, Inc.

Jackie M. Clegg ^{1,4}, *Director*;
Managing Partner,
Clegg International Consultants, LLC

Jeffrey R. Leeds ^{1,2,4}, *Director*;
Former Chief Financial Officer,
GreenPoint Financial Corporation

Randal A. Nardone, *Director*;
Co-Founder & Principal,
Fortress Investment Group LLC

Mark J. Schulte, *Director*;
Former Co-Chief Executive Officer,
Brookdale Senior Living Inc.

James R. Seward ^{1,3}, *Director*;
Private Investor, Consultant

W.E. Sheriff, *Director*;
Chief Executive Officer,
Brookdale Senior Living Inc.

Dr. Samuel Waxman ^{2,4}, *Director*;
Distinguished Service Professor,
Mount Sinai School of Medicine

(1) *Audit Committee*

(2) *Compensation Committee*

(3) *Investment Committee*

(4) *Nominating and Corporate Governance Committee*

EXECUTIVE OFFICERS

W.E. Sheriff
Chief Executive Officer

Mark W. Ohlendorf
Co-President and Chief Financial Officer

John P. Rijos
Co-President and Chief Operating Officer

T. Andrew Smith
Executive Vice President, General Counsel & Secretary

Bryan D. Richardson
Executive Vice President & Chief Administrative Officer

Gregory B. Richard
Executive Vice President – Field Operations

Kristin A. Ferge
Executive Vice President & Treasurer

George T. Hicks
Executive Vice President – Finance

H. Todd Kaestner
Executive Vice President – Corporate Development

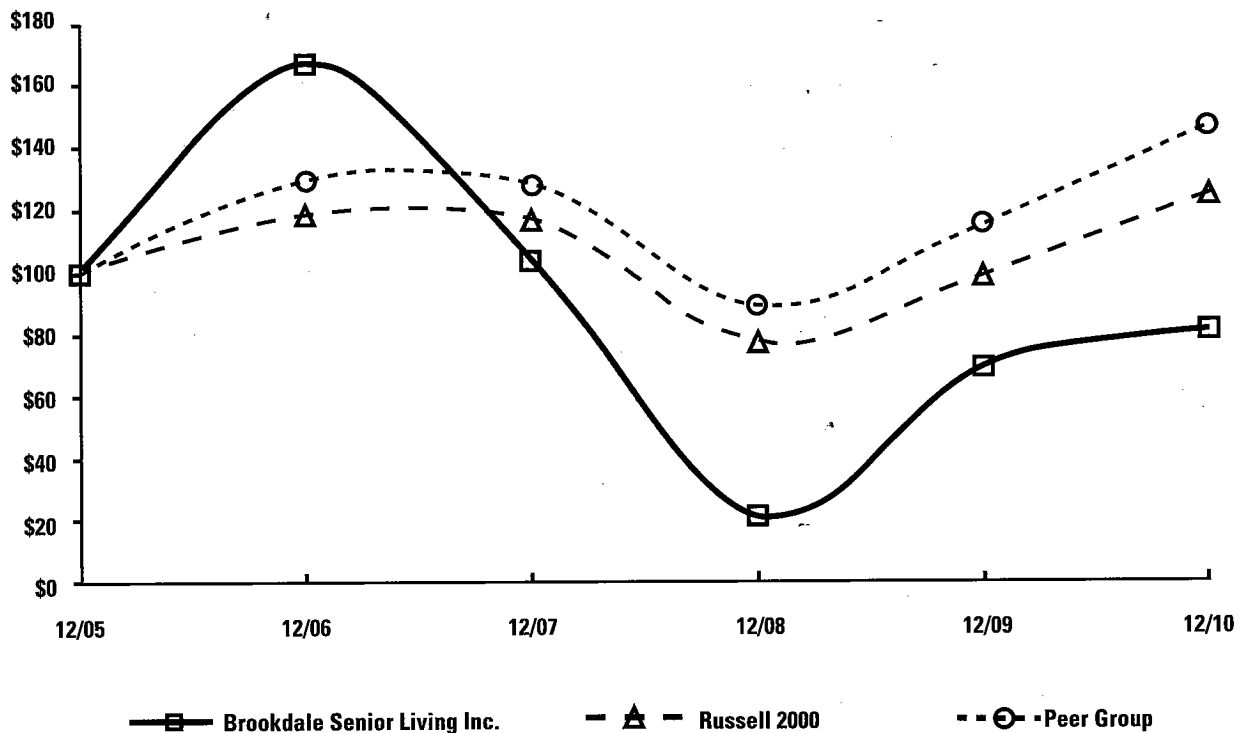
PERFORMANCE GRAPH

Comparison of Cumulative Return since December 31, 2005 through December 31, 2010 for Brookdale, the Russell 2000 Index and a Peer Group.

The graph below compares the cumulative total return for Brookdale common stock with the comparable cumulative return of the Russell 2000 Index and a peer group of companies composed of Emeritus Corporation, Sunrise

Senior Living, Inc., Capital Senior Living Corporation, Five Star Quality Care, Inc., HCP, Inc., and Ventas, Inc. The graph assumes \$100 invested on December 31, 2005 and \$100 invested at that same time in each of the Russell 2000 Index and the peer group. The comparison assumes that all dividends are reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
AMONG BROOKDALE SENIOR LIVING INC., THE RUSSELL 2000 INDEX AND A PEER GROUP



	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
—■— BKD	\$100.00	\$166.82	\$103.83	\$21.17	\$69.01	\$81.23
-▲- Russell 2000	\$100.00	\$118.37	\$116.51	\$77.15	\$98.11	\$124.46
-○- Peer Group	\$100.00	\$128.94	\$127.60	\$88.64	\$115.05	\$145.78



BROOKDALE[®]
SENIOR LIVING

Our People Make the DifferenceSM

Corporate Headquarters

111 Westwood Place, Suite 400

Brentwood, TN 37027

(615) 221-2250

For more information visit our website: www.brookdaleliving.com

Brookdale Senior Living Resident Programs:



Brookdale, Optimum Life, Innovative Senior Care and other trademarks and service marks herein are the registered and unregistered trademarks and service marks of Brookdale Senior Living Inc.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Received SEC
MAY 02 2011
Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

or

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

Commission File Number 001-32641

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-3068069
(I.R.S. Employer
Identification No.)

111 Westwood Place, Suite 400
Brentwood, Tennessee 37027
(Address of Principal Executive Offices)

(Registrant's telephone number including area code)

(615) 221-2250

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 Par Value Per Share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$865.3 million. The market value calculation was determined using a per share price of \$15.00, the price at which the registrant's common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by non-affiliates excludes only those shares beneficially owned by the registrant's executive officers, directors, and stockholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

As of February 25, 2011, 120,777,787 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Definitive Proxy Statement relating to its 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS
BROOKDALE SENIOR LIVING INC.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>PAGE</u>	
PART I		
<u>Item 1</u>	<u>Business</u>	5
<u>Item 1A</u>	<u>Risk Factors</u>	17
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	33
<u>Item 2</u>	<u>Properties</u>	33
<u>Item 3</u>	<u>Legal Proceedings</u>	34
<u>Item 4</u>	<u>(Removed and Reserved)</u>	34
PART II		
<u>Item 5</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	35
<u>Item 6</u>	<u>Selected Financial Data</u>	36
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	67
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	68
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	105
<u>Item 9A</u>	<u>Controls and Procedures</u>	105
<u>Item 9B</u>	<u>Other Information</u>	105
PART III		
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u>	105
<u>Item 11</u>	<u>Executive Compensation</u>	106
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	106
<u>Item 13</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	107
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u>	107
PART IV		
<u>Item 15</u>	<u>Exhibits and Financial Statement Schedules</u>	107

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

Certain statements in this Annual Report on Form 10-K and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our operational initiatives and our expectations regarding their effect on our results; our expectations regarding occupancy, revenue, cash flow, expense levels, the demand for senior housing, expansion and development activity, acquisition opportunities, asset dispositions and taxes; our belief regarding our growth prospects; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity; our plans to deleverage; our expectations regarding financings and refinancings of assets (including the timing thereof); our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health and hospice); our plans to expand, redevelop and reposition existing communities; the expected project costs for our expansion program; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein). Words such as "anticipate(s)", "expect(s)", "intend(s)", "plan(s)", "target(s)", "project(s)", "predict(s)", "believe(s)", "may", "will", "would", "could", "should", "seek (s)", "estimate(s)" and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, the risk associated with the current global economic crisis and its impact upon capital markets and liquidity; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; the risk that we may be required to post additional cash collateral in connection with our interest rate swaps; the risk that continued market deterioration could jeopardize the performance of certain of our counterparties' obligations; changes in governmental reimbursement programs; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our facilities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; and other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other communications, including those set forth under "Risk Factors" included elsewhere in this Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this Annual 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.

PART I

Item 1. Business.

Overview

As of December 31, 2010, we are the largest operator of senior living communities in the United States based on total capacity, with 559 communities in 34 states and the ability to serve approximately 51,300 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. As of December 31, 2010, we operated in four business segments: retirement centers, assisted living, continuing care retirement communities ("CCRCs") and management services.

As of December 31, 2010, we operated 78 retirement center communities with 14,620 units, 427 assisted living communities with 20,988 units, 35 CCRCs with 11,919 units and 19 communities with 3,786 units where we provide management services for third parties. The majority of our units are located in campus settings or communities containing multiple services, including CCRCs. For the year ended December 31, 2010, the weighted average occupancy rate for our owned/leased communities was 87.1%. For the year ended December 31, 2010, 43.6% of our revenues were generated from owned communities, 56.1% from leased communities and 0.3% from management fees from communities we operate on behalf of third parties. We generate approximately 80.6% of our revenues from private pay customers.

The table below presents a summary of our operating results and certain other financial metrics for each of the years ended December 31, 2010, 2009 and 2008 (dollars in millions):

	For the Years Ended December 31,		
	2010	2009	2008
Total revenues	\$ 2,213.3	\$ 2,023.1	\$ 1,928.1
Net loss ⁽¹⁾	\$ (48.9)	\$ (66.3)	\$ (373.2)
Adjusted EBITDA ⁽²⁾	\$ 408.5	\$ 348.6	\$ 302.6
Cash From Facility Operations ⁽³⁾	\$ 240.7	\$ 196.8	\$ 130.1
Facility Operating Income ⁽²⁾	\$ 744.3	\$ 690.1	\$ 637.5

- (1) Net loss for 2010, 2009 and 2008 include non-cash impairment charges of \$13.1 million, \$10.1 million and \$220.0 million, respectively.
- (2) Adjusted EBITDA and Facility Operating Income are non-GAAP financial measures we use in evaluating our operating performance. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" 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, and a reconciliation of net loss to each of these measures.
- (3) Cash From Facility Operations is a non-GAAP financial measure we use in evaluating our liquidity. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for an explanation of how we define this measure, a detailed description of why we believe such measure is useful and the limitations of such measure, and a reconciliation of net cash provided by operating activities to such measure.

Our operating results for the year ended December 31, 2010 were favorably impacted by an increase in our total revenues, primarily driven by an increase in average monthly revenue per unit, including an increase in our ancillary services revenue, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. Although we have made significant progress in many areas of our business, the difficult operating environment has continued to result in occupancy rates that are lower than historical levels and diminished growth in the rates we charge our residents.

During 2010, we continued our efforts to strengthen our financial position. For example, in early 2010, we entered into a new revolving credit facility with General Electric Capital Corporation, as administrative agent. The facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which we exercised during the second quarter), and was scheduled to mature on June 30, 2013. As discussed in more detail elsewhere in the Annual Report on Form 10-K, subsequent to December 31, 2010, we

entered into an Amended and Restated Credit Agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated the previous credit agreement. The amended credit agreement increased the commitment under the credit facility to \$200.0 million and extended the maturity date to January 31, 2016. Effective February 23, 2011, the commitment under the amended credit agreement was further increased to \$230.0 million. Furthermore, we have refinanced, repaid or exercised extension options on a number of mortgage loans and, factoring in contractual extension options, have no mortgage debt maturities until 2012 (other than periodic, scheduled principal payments). As a result of our recent operating performance and the steps we have recently taken to improve our liquidity position, we ended the year with \$81.8 million of unrestricted cash and cash equivalents on our consolidated balance sheet.

During 2010, we engaged in a limited amount of acquisition activity. We acquired the fee simple interest in four communities we previously operated under an operating lease. The aggregate purchase price for the interest was \$22.5 million. Additionally, we purchased and entered into a sale-leaseback arrangement with respect to one of our communities and acquired seven home health agencies during the year.

We believe that we are positioned to take advantage of favorable demographic trends and future supply-demand dynamics in the senior living industry. We also believe that we operate in the most attractive sectors of the senior living industry with significant opportunities to increase our revenues through providing a combination of housing, hospitality services, ancillary services and health care services. Our senior living communities offer residents a supportive "home-like" setting, assistance with activities of daily living, or ADLs, and, in several communities, licensed skilled nursing services. We also provide ancillary services, including therapy and home health services, to our residents. Our strategy is to be the leading provider of wellness and healthcare solutions within the senior living industry. By providing residents with a range of service options as their needs change, we provide greater continuity of care, enabling seniors to "age-in-place" and thereby maintain residency with us for a longer period of time. The ability of residents to age-in-place is also beneficial to our residents and their families who are concerned with care decisions for their elderly relatives.

We believe that there are substantial organic growth opportunities inherent in our existing portfolio. We intend to take advantage of those opportunities by growing revenues, while maintaining expense control, at our existing communities, continuing the expansion and maturation of our ancillary services programs, expanding, redeveloping and repositioning our existing communities, and acquiring additional operating companies and communities.

Growth Strategy

Our primary growth objectives are to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income. Key elements of our strategy to achieve these objectives include:

- **Organic growth in our core business, including expense control and the realization of economies of scale.** We plan to grow our existing operations by increasing revenues through a combination of occupancy growth and monthly service fee increases as a result of our competitive strength and growing demand for senior living communities. In addition, we intend to take advantage of our sophisticated operating and marketing expertise to retain existing residents and attract new residents to our communities. We also plan to continue our efforts to achieve cost savings through the realization of additional economies of scale. The size of our business has allowed us to achieve savings in the procurement of goods and services and increased efficiencies with respect to various corporate functions, and we expect that we can achieve additional savings and efficiencies.
- **Growth through the continued expansion of our ancillary services programs (including therapy, home health and hospice services).** We plan to grow our revenues by further expanding our Innovative Senior Care program throughout our retirement centers, assisted living, CCRCs and management services segments. This expansion includes expanding the scope of services provided at the communities currently served and the continuing rollout of home health to communities not currently serviced. In addition, we plan to grow our revenues from ancillary services through the maturation of existing clinics. Through the Innovative Senior Care program, we currently provide therapy, home health and other ancillary services, as well as education and wellness programs, to residents of many of our communities. These programs are focused on wellness and physical fitness to allow residents to

maintain maximum independence. These services provide many continuing education opportunities for residents and their families through health fairs, seminars, and other consultative interactions. The therapy services we provide include physical, occupational, speech and other specialized therapy and home health services. The home health services we provide include skilled nursing, physical therapy, occupational therapy, speech language pathology, home health aide services as well as social services as needed. In addition to providing these in-house therapy and wellness services at our communities, we also provide these services to other senior living communities that we do not own or operate and to seniors living outside of our communities. These services may be reimbursed under the Medicare program or paid directly by residents from private pay sources and revenues are recognized as services are provided. We also plan to begin offering hospice services in certain locations. We believe that our Innovative Senior Care program is unique in the senior living industry and that we have a significant advantage over our competitors with respect to providing ancillary services because of our established infrastructure and experience. We believe there is a significant opportunity to grow our revenues by continuing to expand the scope of services at communities currently served and continuing the rollout of home health to additional communities, which we believe will increase our revenue per unit in the future. As of December 31, 2010, we offered therapy services to approximately 37,800 of our units and home health services to approximately 26,500 of our units.

Growth through the expansion, redevelopment and repositioning of existing communities. Through our Program Max initiative, we intend to grow our revenues and cash flows through the expansion, redevelopment and repositioning of certain of our existing communities where economically advantageous. Certain of our communities with stabilized occupancies and excess demand in their respective markets may benefit from additions and expansions (which additions and expansions may be subject to landlord, lender and other third party consents) offering increased capacity. Additionally, the community, as well as our presence in the market, may benefit from adding a new level of service for residents. Through Program Max, we may also reposition certain communities to meet the evolving needs of our customer. This may include converting space from one level of care to another, reconfiguration of existing units, or the addition of services that are not currently present.

Growth through the acquisition and consolidation of asset portfolios and other senior living companies. As opportunities arise, we plan to continue to take advantage of the fragmented continuing care, independent living and assisted living 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. Our acquisition strategy will continue to focus primarily on communities where we can improve service delivery, occupancy rates and cash flow.

The Senior Living Industry

The senior living industry is highly fragmented and characterized by numerous local and regional operators. We are one of a limited number of national operators that provide a broad range of community locations and service level offerings at varying price levels. The industry has seen significant growth in recent years and has been marked by the emergence of the assisted living segment in the mid-1990's.

Since the beginning of 2007, the industry has been affected by the downturn in the housing market and by the declining economy in general. In spite of these factors, over the past year, industry occupancy is essentially flat, with the fourth quarter of 2010 being the first since the first quarter of 2007 that occupancy in the industry did not decrease on an annual basis according to the National Investment Center for the Seniors Housing & Care Industry ("NIC"). According to NIC, occupancy has declined 40 basis points to 87.1% in the independent living sector and has increased 60 basis points to 88.4% in the assisted living sector in the twelve months ended December 31, 2010. Industry occupancy rates have been declining after reaching a cyclic high in early 2007 of 92.3% according to NIC. The relatively stable occupancy during 2010 suggests that the senior housing industry may now be trending along a cyclical bottom. New senior housing construction starts have slowed dramatically since late 2008. Due to the continued impact of the economic recession, securing financing for new projects has been very difficult. For the foreseeable future, there will likely be very limited amounts of new construction in senior living.

Despite current economic conditions, we believe that a number of trends will contribute to the continued growth of the senior living industry in coming years. The primary market for senior living services is individuals age 70

and older. According to U.S. Census data, the group is expected to grow by 3.1 million through 2015. As a result of these demographic trends, we expect an increase in the demand for senior living services in future years.

We believe the senior living industry has been and will continue to be impacted by several other trends. The use of long-term care insurance is increasing among current and future seniors as a means of planning for the costs of senior living services. In addition, as a result of increased mobility in society, a reduction of average family size and increased number of two-wage earner couples, more seniors are looking for alternatives outside of their family for their care. Growing consumer awareness among seniors and their families concerning the types of services provided by independent and assisted living operators has further contributed to the opportunities in the senior living industry. Also, seniors currently possess greater financial resources than in the past, which makes it more likely that they are able to afford to live in market-rate senior housing. Seniors in the geographic areas in which we operate tend to have a significant amount of assets generated from savings, pensions and, despite weakening in national housing markets, equity from the sale of private homes.

Challenges in our industry include increased state and local regulation of the assisted living and skilled nursing sectors, which has led to an increase in the cost of doing business. The regulatory environment continues to intensify in the number and types of laws and regulations affecting us, accompanied by increased enforcement activity by state and local officials. In addition, like other companies, our financial results may be negatively impacted by increasing employment costs including salaries, wages and benefits, such as health care, for our employees. Increases in the costs of utilities, insurance, and real estate taxes may also have a negative impact on our financial results.

Certain per person annual limits on Medicare reimbursement for therapy services became effective in 2006, subject to certain exceptions. These exceptions are currently scheduled to expire on December 31, 2011. If these exceptions are modified or not extended beyond that date, our revenues and net operating income relating to our outpatient therapy services could be materially adversely impacted. In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. For example, the Centers for Medicare & Medicaid Services ("CMS") recently published a decrease in home health rates for 2011. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

Our History

We were formed as a Delaware corporation in June 2005 for the purpose of combining two leading senior living operating companies, Brookdale Living Communities, Inc., or BLC, and Alterra Healthcare Corporation, or Alterra. BLC and Alterra had been operating independently since 1986 and 1981, respectively. On November 22, 2005, we completed our initial public offering of common stock, and on July 25, 2006, we acquired American Retirement Corporation, or ARC, another leading senior living provider which had been operating independently since 1978.

Our Product Offerings

We offer a variety of senior living housing and service alternatives in communities located across the United States. Our primary product offerings consist of (i) retirement center communities; (ii) assisted living communities; and (iii) CCRCs. As discussed below under "Segments", we also operate certain communities on behalf of third parties pursuant to management agreements.

Retirement Centers. Our retirement center communities are primarily designed for middle to upper income seniors generally age 70 and older who desire an upscale residential environment providing the highest quality of service.

The majority of our retirement center communities consist of both independent 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. While the number varies depending upon the particular community, approximately 76.2% of all of the units at our retirement center communities are independent living units, with the balance of units licensed for assisted living.

Table of Contents

Our retirement center communities are large multi-story buildings containing on average 187 units with extensive common areas and amenities. Residents may choose from studio, one-bedroom and two-bedroom units, depending upon the specific community.

Each retirement center community provides residents with basic services such as meal service, 24-hour emergency response, housekeeping, concierge services, transportation and recreational activities. Most of these communities also offer custom tailored supplemental care services at an additional charge, which may include medication reminders, check-in services and escort and companion services. In addition, our Innovative Senior Care program is currently available in most of our retirement centers communities. Through the program, we are able to offer our residents various education, wellness, therapy, home health and other ancillary services.

In addition to the basic services, our retirement center communities that include assisted living also provide residents with supplemental care service options to provide assistance with activities of daily living, or ADLs. The levels of care provided to residents vary from community to community depending, among other things, upon the licensing requirements of the state in which the community is located.

Residents in our retirement center communities are able to maintain their residency for an extended period of time due to the range of service options available to residents (not including skilled nursing) as their needs change. Residents with cognitive or physical frailties and higher level service needs are accommodated with supplemental services in their own units or, in certain communities, are cared for in a more structured and supervised environment on a separate wing or floor. These communities also generally have a dedicated assisted living staff, including nurses at the majority of communities, and separate assisted living dining rooms and activity areas.

The communities in our Retirement Centers segment represent approximately 28.5% of our total senior living capacity.

Assisted Living. Our assisted living communities offer housing and 24-hour assistance with ADLs to mid-acuity frail and elderly residents. Our assisted living communities include both freestanding, multi-story communities with more than 50 beds and smaller, freestanding single story communities with less than 50 beds. Depending upon the specific location, the community may include (i) private studio, one-bedroom and one-bedroom deluxe apartments, or (ii) individual rooms for one or two residents in wings or "neighborhoods" scaled to a single-family home, which includes a living room, dining room, patio or enclosed porch, laundry room and personal care area, as well as a caregiver work station.

Under our Clare Bridge brand, we also operate 86 memory-care communities, which are freestanding assisted living communities specially designed for residents with Alzheimer's disease and other dementias requiring the attention, personal care and services needed to help cognitively impaired residents maintain a higher quality of life. Our memory care communities have from 19 to 60 beds and some are part of a campus setting which includes a freestanding assisted living community.

All residents at our assisted living and memory care communities receive the basic care level, which includes ongoing health assessments, three meals per day and snacks, coordination of special diets planned by a registered dietitian, assistance with coordination of physician care, social and recreational activities, housekeeping and personal laundry services. In some locations we offer our residents exercise programs and programs designed to address issues associated with early stages of Alzheimer's and other forms of dementia. In addition, we offer at additional cost higher levels of personal care services to residents at these communities who are very physically frail or experiencing early stages of Alzheimer's disease or other dementia and who require more frequent or intensive physical assistance or increased personal care and supervision due to cognitive impairments. We also offer our Innovative Senior Care program at certain of our assisted living and memory care communities.

As a result of their progressive decline in cognitive abilities, residents at our memory care communities typically require higher levels of personal care and services and therefore pay higher monthly service fees. Specialized services include assistance with ADLs, behavior management and an activities program, the goal of which is to provide a normalized environment that supports residents' remaining functional abilities. Whenever possible, residents participate in all facets of daily life at the residence, such as assisting with meals, laundry and housekeeping.

The communities in our Assisted Living segment (including our memory care communities) represent approximately 40.9% of our total senior living capacity.

CCRCs. Our CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of our CCRCs have independent living, assisted living and skilled nursing available on one campus, and some also include memory care/Alzheimer's service areas.

Eleven of our CCRCs that we own or lease are entrance fee communities, in which residents in the independent living apartment units pay a one-time upfront entrance fee, typically \$100,000 to \$400,000 or more, which fee 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 (i.e., a healthcare discount) for the resident, the amount and timing of refund, and other variables. These agreements are subject to regulations in various states. In addition to their initial entrance fee, residents under all of our entrance fee agreements also pay a monthly service fee, which entitles them to the use of certain amenities and services. Since we receive entrance fees upon initial occupancy, the monthly fees are generally less than fees at a comparable rental community.

The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the sale of the unit, or in some agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. In addition, some entrance fee agreements entitle the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit upon resale.

We also offer a broad array of ancillary services, including therapy, home health, and other services through our Innovative Senior Care program, to the residents of each of our CCRCs.

The communities in our CCRCs segment represent approximately 23.2% of our total senior living capacity. The independent living units at our entrance fee communities (those units on which entry fees are paid) represent 6.0% of our total senior living capacity. Excluding managed communities and equity homes (which are residences located on certain of our CCRC campuses that we do not generally own), entrance fee communities represent 9.9% of our total senior living capacity.

Competitive Strengths

We believe our nationwide network of senior living communities is well positioned to benefit from the growth and increasing demand in the industry. Some of our most significant competitive strengths are:

- **Skilled management team with extensive experience.** Our senior management team has extensive experience in acquiring, operating and managing a broad range of senior living assets, including experience in the senior living, healthcare, hospitality and real estate industries.
- **Geographically diverse, high-quality, purpose-built communities.** As of December 31, 2010, we operate a nationwide base of 559 purpose-built communities in 34 states, including 77 communities in nine of the ten most populous standard metropolitan statistical areas.
- **Ability to provide a broad spectrum of care.** Given our diverse mix of retirement centers, assisted living communities and CCRCs, we are able to meet a wide range of our customers' needs. We believe that we are one of the few companies in the senior living industry with this capability and the only company that does so at scale on a national basis. We believe that our multiple product offerings create marketing synergies and cross-selling opportunities.
- **The size of our business allows us to realize cost and operating efficiencies.** We are the largest operator of senior living communities in the United States based on total capacity. The size of our business allows us to realize cost savings and economies of scale in the procurement of goods and services. Our scale also allows us to achieve increased efficiencies with respect to various corporate functions. We intend to utilize our expertise and size to capitalize on economies of scale resulting from our national platform. Our geographic footprint and centralized infrastructure provide us with a

significant operational advantage over local and regional operators of senior living communities. In connection with our formation transactions and our acquisitions, we negotiated new contracts for food, insurance and other goods and services. In addition, we have and will continue to consolidate corporate functions such as accounting, finance, human resources, legal, information technology and marketing. We began to realize these savings upon the completion of our formation transactions in September 2005 and have realized additional savings as we continued to consolidate and integrate various corporate functions.

Significant experience in providing ancillary services. Through our Innovative Senior Care program, we provide a range of education, wellness, therapy, home health and other ancillary services to residents of certain of our retirement centers, assisted living, and CCRC communities. Having therapy clinics and home health agencies located in our senior living communities to provide needed services to our residents is a distinct competitive difference. We have significant experience in providing these ancillary services and expect to receive additional revenues as we expand our ancillary service offerings to additional communities and to seniors living outside of our communities.

Segments

As of December 31, 2010, we had four reportable segments: retirement centers; assisted living; CCRCs; and management services. These segments were determined based on the way that our chief operating decision makers organize our business activities for making operating decisions and assessing performance.

Our management services segment includes the results of communities that we operate on behalf of third parties pursuant to management agreements. Information regarding the other segments is included above under "Our Product Offerings".

Operating results from our four business segments are discussed further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 24 to our consolidated financial statements included herein.

Operations

Operations Overview

We believe that successful senior living operators must effectively combine the expertise and business disciplines of housing, hospitality, health care, marketing, finance and real estate.

We continually review opportunities to expand the types of services we provide to our residents. To date, we have been able to increase our monthly revenue per unit each year and we have generally experienced increasing facility operating margins through a combination of the implementation of efficient operating procedures and the economies of scale associated with the size and number of our communities. Our operating procedures include securing national vendor contracts to obtain the lowest possible pricing for certain services such as food, energy and insurance, implementing effective budgeting and financial controls at each community, and establishing standardized training and operations procedures.

We have implemented intensive standards, policies and procedures and systems, including detailed staff manuals, which we believe have contributed to high levels of customer service and to improved facility operating margins. We have centralized accounting controls, finance and other operating functions in our support centers so that, consistent with our operating philosophy, community-based personnel can focus on resident care and efficient operations. We have established company-wide policies and procedures relating to, among other things: resident care; community design and community operations; billings and collections; accounts payable; finance and accounting; risk management; development of employee training materials and programs; marketing activities; the hiring and training of management and other community-based personnel; compliance with applicable local and state regulatory requirements; and implementation of our acquisition, development and leasing plans.

Consolidated Corporate Operations Support

We have developed a centralized infrastructure and services platform, which provides us with a significant operational advantage over local and regional operators of senior living communities. The size of our business also allows us to achieve increased efficiencies with respect to various corporate functions such as human resources, finance, accounting, legal, information technology and marketing. We are also able to realize cost efficiencies in the purchasing of food, supplies, insurance, benefits, and other goods and services. In addition, we have established centralized operations groups to support all of our product lines and communities in areas such as training, regulatory affairs, asset management, dining and procurement.

Community Staffing and Training

Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of service, social services and financial performance. Each Executive Director receives specialized training from us. In addition, a portion of each Executive Director's compensation is directly tied to the operating performance of the community and key service quality measures. We believe that the quality of our communities, coupled with our competitive compensation philosophy, has enabled us to attract high-quality, professional community Executive Directors.

Depending upon the size of the community, each Executive Director is supported by a community staff member who is directly responsible for day-to-day care of the residents and either community staff or regional support to oversee the community's marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, activities, housekeeping, and engineering.

We believe that quality of care and operating efficiency can be maximized by direct resident and staff contact. Employees involved in resident care, including the administrative staff, are trained in the support and care needs of the residents and emergency response techniques. We have adopted formal training and evaluation procedures to help ensure quality care for our residents. We have extensive policy and procedure manuals and hold frequent training sessions for management and staff at each site.

Quality Assurance

We maintain quality assurance programs at each of our communities through our corporate and regional staff. Our quality assurance program is designed to achieve a high degree of resident and family member satisfaction with the care and services that we provide. Our quality control measures include, among other things, community inspections conducted by corporate staff on a regular basis. These inspections cover the appearance of the exterior and grounds; the appearance and cleanliness of the interior; the professionalism and friendliness of staff; quality of resident care (including assisted living services, nursing care, therapy and home health programs); the quality of activities and the dining program; observance of residents in their daily living activities; and compliance with government regulations. Our quality control measures also include the survey of residents and family members on a regular basis to monitor their perception of the quality of services provided to residents.

In order to foster a sense of community as well as to respond to residents' desires, at many of our communities, we have established a resident council or other resident advisory committee that meets monthly with the Executive Director of the community. Separate resident committees also exist at many of these communities for food service, activities, marketing and hospitality. These committees promote resident involvement and satisfaction and enable community management to be more responsive to the residents' needs and desires.

Marketing and Sales

Our marketing strategy is intended to create awareness of us, our communities, our products and our services among potential residents and their family members and among referral sources, including hospital discharge planners, physicians, clergy, area agencies for the elderly, skilled nursing facilities, home health agencies and social workers. Our marketing staff develops overall strategies for promoting our communities and monitors the success of our marketing efforts, including outreach programs. In addition to direct contacts with prospective referral sources, we also rely on internet inquiries, print advertising, yellow pages advertising, direct mail, signage and special events, health fairs and community receptions. Certain resident referral programs have been established and promoted within the limitations of federal and state laws at many communities.

In order to mitigate the impact of weakness in the housing market, we have implemented several sales and marketing initiatives designed to increase our entrance fee sales results. These include the acceptance of short-term promissory notes in satisfaction of a resident's required entrance fee from certain pre-qualified, prospective residents who are waiting for their homes to sell. In addition, we have implemented the MyChoice program, which allows new and existing residents in certain communities the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee, thereby offering choices to residents desiring a more affordable ongoing monthly service fee.

Competition

The senior living industry is highly competitive. We compete with numerous other organizations that provide similar senior living alternatives, such as home health care agencies, community-based service programs, retirement communities, convalescent centers and other senior living providers. In general, regulatory and other barriers to competitive entry in the retirement center and assisted living sectors of the senior living industry are not substantial, except in the skilled nursing area. Although new construction of senior living communities has declined in recent years, we have experienced and expect to continue to experience competition in our efforts to acquire and operate senior living communities. Some of our present and potential senior living competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. Consequently, we may encounter competition that could limit our ability to attract residents or expand our business, which could have a material adverse effect on our revenues and earnings. Our major publicly-traded competitors which operate senior living communities are Sunrise Senior Living, Inc., Emeritus Corporation and Capital Senior Living Corporation and our major private competitors include Life Care Services, LLC and Atria Senior Living Group, as well as a large number of not-for-profit entities. Partially as a result of recent tax law changes enacted through the Real Estate Investment Trusts ("REIT") Investment Diversification and Empowerment Act ("RIDEA"), we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties. The largest four of these publicly-traded healthcare REITs measured on equity market capitalization include HCP, Inc., Ventas, Inc., Health Care REIT, Inc. and Nationwide Health Properties, Inc.

Customers

Our target retirement center residents are senior citizens age 70 and older who desire or need a more supportive living environment. The average retirement center resident resides in a retirement center community for approximately 31 months. A number of our retirement center residents relocate to one of our communities in order to be in a metropolitan area that is closer to their adult children.

Our target assisted living residents are predominantly senior citizens age 80 and older who require daily assistance with two or three ADLs. The average assisted living resident resides in an assisted living community for approximately 19 months. Residents typically enter an assisted living community due to a relatively immediate need for services that might have been triggered by a medical event or need.

Our target CCRC residents are senior citizens who are seeking a community that offers a variety of services and a continuum of care so that they can "age in place." These residents generally first enter the community as a resident of an independent living unit and may later move into an assisted living or skilled nursing unit as their needs change.

We believe our combination of retirement center and assisted living operating expertise and the broad base of customers that this enables us to target creates a unique opportunity for us to invest in a broad spectrum of assets in the senior living industry, including retirement center, assisted living, CCRC and skilled nursing communities.

Employees

As of December 31, 2010, we had approximately 23,900 full-time employees and approximately 14,700 part-time employees, of which 245 work in our Nashville headquarters office, 380 work in our Milwaukee office, 53 work in our Chicago office and 138 work in a variety of field-based management positions. We currently consider our relationship with our employees to be good.

Government Regulation

The regulatory environment surrounding the senior living industry continues to intensify in the number and type of laws and regulations affecting it. In addition, federal, state and local officials are increasingly focusing their efforts on enforcement of these laws and regulations. This is particularly true for large for-profit, multi-community providers like us. Some of the laws and regulations that impact our industry include: state and local laws impacting licensure, protecting consumers against deceptive practices, and generally affecting the communities' management of property and equipment and how we otherwise conduct our operations, such as fire, health and safety laws and regulations and privacy laws; federal and state laws designed to protect Medicare and Medicaid, which mandate what are allowable costs, pricing, quality of services, quality of care, food service, resident rights (including abuse and neglect) and fraud; federal and state residents' rights statutes and regulations; Anti-Kickback and physicians referral ("Stark") laws; and safety and health standards set by the Occupational Safety and Health Administration. We are unable to predict the future course of federal, state and local legislation or regulation. Changes in the regulatory framework could have a material adverse effect on our business.

Many senior living communities are also subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. Although requirements vary from state to state, these requirements may address, among others, the following: personnel education, training and records; community services, including administration of medication, assistance with self-administration of medication and the provision of nursing, home health and therapy services; staffing levels; monitoring of resident wellness; physical plant specifications; furnishing of resident units; food and housekeeping services; emergency evacuation plans; professional licensing and certification of staff prior to beginning employment; and resident rights and responsibilities, including in some states the right to receive health care services from providers of a resident's choice that are not our employees. In several of the states in which we operate or may operate, we are prohibited from providing certain higher levels of senior care services without first obtaining the appropriate licenses. In addition, in several of the states in which we operate or intend to operate, assisted living communities, home health agencies and/or skilled nursing facilities require a certificate of need before the community can be opened or the services at an existing community can be expanded. Senior living communities may also be subject to state and/or local building, zoning, fire and food service codes and must be in compliance with these local codes before licensing or certification may be granted. These laws and regulatory requirements could affect our ability to expand into new markets and to expand our services and communities in existing markets. In addition, if any of our presently licensed communities operates outside of its licensing authority, it may be subject to penalties, including closure of the community.

The intensified regulatory and enforcement environment impacts providers like us because of the increase in the number of inspections or surveys by governmental authorities and consequent citations for failure to comply with regulatory requirements. Unannounced surveys or inspections may occur annually or bi-annually, or following a regulator's receipt of a complaint about the community. From time to time in the ordinary course of business, we receive deficiency reports from state regulatory bodies resulting from such inspections or surveys. Most inspection deficiencies are resolved through an agreed-to plan of corrective action relating to the community's operations, but the reviewing agency typically has the authority to take further action against a licensed or certified community, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Loss, suspension or modification of a license may also cause us to default under our loan or lease agreements and/or trigger cross-defaults. Sanctions may be taken against providers or facilities without regard to the providers' or facilities' history of compliance. We may also expend considerable resources to respond to federal and state investigations or other enforcement action under applicable laws or regulations. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues. However, any future substantial failure to comply with any applicable legal and regulatory requirements could result in a material adverse effect to our business as a whole. In addition, states Attorneys General vigorously enforce consumer protection laws as those laws relate to the senior living industry. State Medicaid Fraud and Abuse Units may also investigate assisted living communities even if the community or any of its residents do not receive federal or state funds.

Regulation of the senior living industry is evolving at least partly because of the growing interests of a variety of advocacy organizations and political movements attempting to standardize regulations for certain segments of the industry, particularly assisted living. Our operations could suffer if future regulatory developments, such as

federal assisted living laws and regulations, as well as mandatory increases in the scope and severity of deficiencies determined by survey or inspection officials or increase the number of citations that can result in civil or criminal penalties. Certain current state laws and regulations allow enforcement officials to make determinations on whether the care provided by one or more of our communities exceeds the level of care for which the community is licensed. A finding that a community is delivering care beyond its license might result in the immediate transfer and discharge of residents, which may create market instability and other adverse consequences. Furthermore, certain states may allow citations in one community to impact other communities in the state. Revocation or suspension of a license, or a citation, at a given community could therefore impact our ability to obtain new licenses or to renew existing licenses at other communities, which may also cause us to be in default under our loan or lease agreements and trigger cross-defaults or may also trigger defaults under certain of our credit agreements, or adversely affect our ability to operate and/or obtain financing in the future. If a state were to find that one community's citation will impact another of our communities, this will also increase costs and result in increased surveillance by the state survey agency. If regulatory requirements increase, whether through enactment of new laws or regulations or changes in the enforcement of existing rules, including increased enforcement brought about by advocacy groups, in addition to federal and state regulators, our operations could be adversely affected. In addition, any adverse finding by survey and inspection officials may serve as the basis for false claims lawsuits by private plaintiffs and may lead to investigations under federal and state laws, which may result in civil and/or criminal penalties against the community or individual.

There are various extremely complex federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by health care providers, including those in the senior living industry, and governmental agencies are devoting increasing attention and resources to such anti-fraud initiatives. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Balanced Budget Act of 1997 expanded the penalties for health care fraud. In addition, with respect to our participation in federal health care reimbursement programs, the government or private individuals acting on behalf of the government may bring an action under the False Claims Act alleging that a health care provider has defrauded the government and seek treble damages for false claims and the payment of additional monetary civil penalties. Recently, other health care providers have faced enforcement action under the False Claims Act. The False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, so-called "whistleblower" suits have become more frequent. Also, if any of our communities exceeds its level of care, we may be subject to private lawsuits alleging "transfer trauma" by residents. Such allegations could also lead to investigations by enforcement officials, which could result in penalties, including the closure of communities. The violation of any of these regulations may result in the imposition of fines or other penalties that could jeopardize our business.

Additionally, we operate communities that participate in federal and/or state health care reimbursement programs, including state Medicaid waiver programs for assisted living communities, the Medicare skilled nursing-facility benefit program and other healthcare programs such as therapy and home health services, or other federal and/or state health care programs. Consequently, we are subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state and we cannot be sure that these laws will be interpreted consistently or in keeping with past practices. Violation of any of these laws can result in loss of licensure, claims for recoupment, civil or criminal penalties and exclusion of health care providers or suppliers from furnishing covered items or services to beneficiaries of the applicable federal and/or state health care reimbursement program. Loss of licensure may also cause us to default under our leases and loan agreements and/or trigger cross-defaults.

We are also subject to certain federal and state laws that regulate financial arrangements by health care providers, such as the Federal Anti-Kickback Law, the Stark laws and certain state referral laws. The Federal Anti-Kickback Law makes it unlawful for any person to offer or pay (or to solicit or receive) "any remuneration ... directly or indirectly, overtly or covertly, in cash or in kind" for referring or recommending for purchase any item or service which is eligible for payment under the Medicare and/or Medicaid programs. Authorities have interpreted this statute very broadly to apply to many practices and relationships between health care providers and sources of patient referral. If we were to violate the Federal Anti-Kickback Law, we may face criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as Medicare and Medicaid, which may also cause us to default under our leases and loan agreements and/or trigger cross-defaults. Adverse consequences may also result if we violate federal Stark laws related to certain Medicare and Medicaid physician referrals. While we endeavor to comply with all laws that regulate the licensure and operation of our senior living

communities, it is difficult to predict how our revenues could be affected if we were subject to an action alleging such violations. We are also subject to federal and state laws designed to protect the confidentiality of patient health information. The U.S. Department of Health and Human Services, or HHS, has issued rules pursuant to HIPAA relating to the privacy of such information. Rules that became effective April 14, 2003 govern our use and disclosure of health information at certain HIPAA covered communities. We established procedures to comply with HIPAA privacy requirements at these communities. We were required to be in compliance with the HIPAA rule establishing administrative, physical and technical security standards for health information by April 2005. To the best of our knowledge, we are in compliance with these rules.

Environmental Matters

Under various federal, state and local environmental laws, a current or previous owner or operator of real property, such as us, may be held liable in certain circumstances for the costs of investigation, removal or remediation of certain hazardous or toxic substances, including, among others, petroleum and materials containing asbestos, that could be located on, in, at or under a property, regardless of how such materials came to be located there. Additionally, such an owner or operator of real property may incur costs relating to the release of hazardous or toxic substances, including government fines and payments for personal injuries or damage to adjacent property. The cost of any required investigation, remediation, removal, mitigation, compliance, fines or personal or property damages and our liability therefore could exceed the property's value and/or our assets' value. In addition, the presence of such substances, or the failure to properly dispose of or remediate the damage caused by such substances, may adversely affect our ability to sell such property, to attract additional residents and retain existing residents, to borrow using such property as collateral or to develop or redevelop such property. In addition, such laws impose liability for investigation, remediation, removal and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third-party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances as well as without regard to whether such release or disposal was in compliance with law at the time it occurred. Moreover, the imposition of such liability upon us could be joint and several, which means we could be required to pay for the cost of cleaning up contamination caused by others who have become insolvent or otherwise judgment proof.

We do not believe that we have incurred such liabilities that would have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to regulation under various federal, state and local environmental laws, including those relating to: the handling, storage, transportation, treatment and disposal of medical waste products generated at our communities; identification and warning of the presence of asbestos-containing materials in buildings, as well as removal of such materials; the presence of other substances in the indoor environment; and protection of the environment and natural resources in connection with development or construction of our properties.

Some of our communities generate infectious or other hazardous medical waste due to the illness or physical condition of the residents, including, for example, blood-contaminated bandages, swabs and other medical waste products and incontinence products of those residents diagnosed with an infectious disease. The management of infectious medical waste, including its handling, storage, transportation, treatment and disposal, is subject to regulation under various federal, state and local environmental laws. These environmental laws set forth the management requirements for such waste, as well as related permit, record-keeping, notice and reporting obligations. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste. The use of such waste management companies does not immunize us from alleged violations of such medical waste laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to cleanup disposal sites at which such wastes have been disposed. Any finding that we are not in compliance with environmental laws could adversely affect our business operations and financial condition.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, their employees and certain other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their buildings. The regulations also set forth employee training, record-keeping requirements and sampling protocols pertaining to asbestos-containing materials and potential asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and

those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potential asbestos-containing materials. The regulations may affect the value of a building containing asbestos-containing materials and potential asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potential asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials.

The presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may lead to the incurrence of costs for remediation, mitigation or the implementation of an operations and maintenance plan. Furthermore, the presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may present a risk that third parties will seek recovery from the owners, operators or tenants of such properties for personal injury or property damage. In some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract residents and could adversely affect a community's market value.

We believe that we are in material compliance with applicable environmental laws.

We are unable to predict the future course of federal, state and local environmental regulation and legislation. Changes in the environmental regulatory framework (including legislative or regulatory efforts designed to address climate change, such as the proposed "cap and trade" legislation) could have a material adverse effect on our business. In addition, because environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports, are available free of charge through our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, at the following address: www.brookdaleliving.com. The information within, or that can be accessed through, the web site is not part of this report.

We have posted our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation, Investment and Nominating and Corporate Governance Committees on our web site at www.brookdaleliving.com. In addition, our Code of Ethics for Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Co-Presidents, Chief Financial Officer, Treasurer and Controller, is also available on our website. Our corporate governance materials are available in print free of charge to any stockholder upon request to our Corporate Secretary, Brookdale Senior Living Inc., 111 Westwood Place, Suite 400, Brentwood, Tennessee 37027.

Item 1A. Risk Factors.

Risks Related to Our Business

Recent disruptions in the financial markets could affect our ability to obtain financing or to extend or refinance debt as it matures, which could negatively impact our liquidity, financial condition and the market price of our common stock.

The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in

Table of Contents

the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing (including any refinancing or extension of our existing debt) on reasonable terms, which may negatively affect our business.

As of December 31, 2010, we had an available secured line of credit with a \$120.0 million commitment and separate letter of credit facilities of up to \$82.5 million in the aggregate. As of February 28, 2011, we have an available secured line of credit with a \$230.0 million commitment and separate letter of credit facilities of up to \$82.5 million in the aggregate. As of December 31, 2010, we also had \$71.7 million of debt that is scheduled to mature during the twelve months ending December 31, 2011. If we are unable to extend (or refinance, as applicable) any of our debt or credit or letter of credit facilities prior to their scheduled maturity dates, our liquidity and financial condition could be adversely impacted. In addition, even if we are able to extend or refinance our other maturing debt or credit or letter of credit facilities, the terms of the new financing may not be as favorable to us as the terms of the existing financing.

A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital, including through the issuance of common stock. Continued disruptions in the financial markets could have an adverse effect on us and our business. If we are not able to obtain additional financing on favorable terms, we also may have to delay or abandon some or all of our growth strategies, which could adversely affect our revenues and results of operations.

We will rely on reimbursement from governmental programs for a greater portion of our revenues than in the past, and will be subject to changes in reimbursement levels, which could adversely affect our results of operations and cash flow.

We will rely on reimbursement from governmental programs for a greater portion of our revenues than before, and we cannot assure you that reimbursement levels will not decrease in the future, which could adversely affect our results of operations and cash flow. Certain per person annual limits on Medicare reimbursement for therapy services became effective in 2006, subject to certain exceptions. These exceptions are currently scheduled to expire on December 31, 2011. If these exceptions are modified or not extended beyond that date, our revenues and net operating income relating to our outpatient therapy services could be materially adversely impacted.

In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. For example, the Centers for Medicare & Medicaid Services ("CMS") recently published a decrease in home health rates for 2011. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

Due to the dependency of our revenues on private pay sources, events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees (including downturns in the economy, housing market, consumer confidence or the equity markets and unemployment among resident family members) could cause our occupancy rates, revenues and results of operations to decline.

Costs to seniors associated with independent and assisted living services are not generally reimbursable under government reimbursement programs such as Medicare and Medicaid. Only seniors with income or assets meeting or exceeding the comparable median in the regions where our communities are located typically can afford to pay our monthly resident fees. Economic downturns, softness in the housing market, higher levels of unemployment among resident family members, lower levels of consumer confidence, stock market volatility and/or changes in demographics could adversely affect the ability of seniors to afford our resident fees or entrance fees. If we are unable to retain and/or attract seniors with sufficient income, assets or other resources required to pay the fees associated with independent and assisted living services and other service offerings, our occupancy rates, revenues and results of operations could decline.

The inability of seniors to sell real estate may delay their moving into our communities, which could negatively impact our occupancy rates, revenues, cash flows and results of operations.

Recent housing price declines and reduced home mortgage availability have negatively affected the U.S. housing market, with certain geographic areas experiencing more acute deterioration than others. Downturns in the housing markets, such as the one we have recently experienced, could adversely affect the ability (or perceived ability) of seniors to afford our entrance fees and resident fees as our customers frequently use the proceeds from the sale of their homes to cover the cost of our fees. Specifically, if seniors have a difficult time selling their homes, these difficulties could impact their ability to relocate into our communities or finance their stays at our communities with private resources. If the recent volatility in the housing market continues for a protracted period, our occupancy rates, revenues, cash flows and results of operations could be negatively impacted.

General economic factors could adversely affect our financial performance and other aspects of our business.

General economic conditions, such as inflation, commodity costs, fuel and other energy costs, costs of labor, insurance and healthcare, interest rates, and tax rates, affect our community operating and general and administrative expenses, and we have no control or limited ability to control such factors. In addition, current global economic conditions and uncertainties, the potential impact of a prolonged recession, the potential for failures or realignments of financial institutions, and the related impact on available credit may affect us and our business partners, landlords, counterparties and residents or prospective residents in an adverse manner including, but not limited to, reducing access to liquid funds or credit, increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk that certain of our business partners, landlords or counterparties would be unable to fulfill their obligations to us, and other impacts which we are unable to fully anticipate.

If we are unable to generate sufficient cash flow to cover required interest and lease payments, this would result in defaults of the related debt or leases and cross-defaults under other debt or leases, which would adversely affect our ability to continue to generate income.

We have significant indebtedness and lease obligations, and we intend to continue financing our communities through mortgage financing, long-term leases and other types of financing, including borrowings under our line of credit and future credit facilities we may obtain. We cannot give any assurance that we will generate sufficient cash flow from operations to cover required interest, principal and lease payments. Any non-payment or other default under our financing arrangements could, subject to cure provisions, cause the lender to foreclose upon the community or communities securing such indebtedness or, in the case of a lease, cause the lessor to terminate the lease, each with a consequent loss of income and asset value to us. Furthermore, in some cases, indebtedness is secured by both a mortgage on a community (or communities) and a guaranty by us and/or one or more of our subsidiaries. In the event of a default under one of these scenarios, the lender could avoid judicial procedures required to foreclose on real property by declaring all amounts outstanding under the guaranty immediately due and payable, and requiring the respective guarantor to fulfill its obligations to make such payments. The realization of any of these scenarios would have an adverse effect on our financial condition and capital structure. Additionally, a foreclosure on any of our properties could cause us to recognize taxable income, even if we did not receive any cash proceeds in connection with such foreclosure. Further, because our mortgages and leases generally contain cross-default and cross-collateralization provisions, a default by us related to one community could affect a significant number of our communities and their corresponding financing arrangements and leases.

Our indebtedness and long-term leases could adversely affect our liquidity and our ability to operate our business and our ability to execute our growth strategy.

Our level of indebtedness and our long-term leases could adversely affect our future operations and/or impact our stockholders for several reasons, including, without limitation:

- We may have little or no cash flow apart from cash flow that is dedicated to the payment of any interest, principal or amortization required with respect to outstanding indebtedness and lease payments with respect to our long-term leases;
- Increases in our outstanding indebtedness, leverage and long-term leases will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;

Table of Contents

- Increases in our outstanding indebtedness may limit our ability to obtain additional financing for working capital, capital expenditures, expansions, new developments, acquisitions, general corporate and other purposes; and
- Our ability to pay dividends to our stockholders may be limited.

Our ability to make payments of principal and interest on our indebtedness and to make lease payments on our leases depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business might not continue to generate cash flow at or above current levels. If we are unable to generate sufficient cash flow from operations in the future to service our debt or to make lease payments on our leases, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditures or delay or abandon desirable acquisitions. Such measures might not be sufficient to enable us to service our debt or to make lease payments on our leases. The failure to make required payments on our debt or leases or the delay or abandonment of our planned growth strategy could result in an adverse effect on our future ability to generate revenues and sustain profitability. Any such financing, refinancing or sale of assets might not be available on economically favorable terms to us. In addition, certain of our debt agreements contain extension options. If we are not able to satisfy the conditions precedent to exercising these extension options, our liquidity and financial condition could be negatively impacted.

Our existing credit facilities, mortgage loans and lease arrangements contain covenants that restrict our operations and any default under such facilities, loans or arrangements could result in the acceleration of indebtedness, termination of the leases or cross-defaults, any of which would negatively impact our liquidity and inhibit our ability to grow our business and increase revenues.

Our outstanding indebtedness and leases contain restrictions and covenants and require us to maintain or satisfy specified financial ratios and coverage tests, including maintaining prescribed net worth levels, leverage ratios and debt service and lease coverage ratios on a consolidated basis, and on a community or communities basis based on the debt or lease securing the communities. In addition, certain of our leases require us to maintain lease coverage ratios on a lease portfolio basis (each as defined in the leases) and maintain stockholders' equity or tangible net worth amounts. The debt service coverage ratios are generally calculated as revenues less operating expenses, including an implied management fee and a reserve for capital expenditures, divided by the debt (principal and interest) or lease payment. Net worth is generally calculated as stockholders' equity as calculated in accordance with GAAP, and in certain circumstances, reduced by intangible assets or liabilities or increased by deferred gains from sale-leaseback transactions and deferred entrance fee revenue. These restrictions and covenants may interfere with our ability to obtain financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenues. If we fail to comply with any of these requirements, then the related indebtedness could become immediately due and payable. We cannot assure you that we could pay this debt if it became due.

Our outstanding indebtedness and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, an event of default under the outstanding indebtedness or leases, subject to cure provisions in certain instances, would give the respective lenders or lessors, as applicable, the right to declare all amounts outstanding to be immediately due and payable, terminate the lease, foreclose on collateral securing the outstanding indebtedness and leases, and restrict our ability to make additional borrowings under the outstanding indebtedness or continue to operate the properties subject to the lease. Certain of our outstanding indebtedness and leases contain cross-default provisions so that a default under certain outstanding indebtedness would cause a default under certain of our leases. Certain of our outstanding indebtedness and leases also restrict, among other things, our ability to incur additional debt.

The substantial majority of our lease arrangements are structured as master leases. Under a master lease, we may lease a large number of geographically dispersed properties through an indivisible lease. As a result, it is difficult to restructure the composition of the portfolio or economic terms of the lease without the consent of the landlord. Failure to comply with Medicare or Medicaid provider requirements is a default under several of our master lease and debt financing instruments. In addition, potential defaults related to an individual property may cause a default of an entire master lease portfolio and could trigger cross-default provisions in our outstanding

indebtedness and other leases, which would have a negative impact on our capital structure and our ability to generate future revenues, and could interfere with our ability to pursue our growth strategy.

Certain of our master leases also contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such master leases. These radius restrictions could negatively affect our expansion, development and acquisition plans.

Mortgage debt and lease obligations expose us to increased risk of loss of property, which could harm our ability to generate future revenues and could have an adverse tax effect.

Mortgage debt and lease obligations increase our risk of loss because defaults on indebtedness secured by properties or pursuant to the terms of the lease may result in foreclosure actions initiated by lenders or lessors and ultimately our loss of the property securing any loans for which we are in default or cause the lessor to terminate the lease. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could negatively impact our earnings and liquidity. Further, our mortgage debt and leases generally contain cross-default and cross-collateralization provisions and a default on one community could affect a significant number of our communities, financing arrangements and leases.

In addition, our leases generally provide for renewal or extension options and, in certain cases, purchase options. These options generally are based upon prescribed formulas but, in certain cases, may be at fair market value. We expect to renew, extend or exercise purchase options with respect to our leases in the normal course of business; however, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising any such renewal, extension or purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. If we are not able to renew or extend our existing leases, or purchase the communities subject to such leases, at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition and results of operation could be adversely affected.

Increases in market interest rates could significantly increase the costs of our unhedged debt and lease obligations, which could adversely affect our liquidity and earnings.

Our unhedged floating-rate debt and lease payment obligations and any unhedged floating-rate debt incurred in the future, exposes us to interest rate risk. Therefore, increases in prevailing interest rates could increase our payment obligations, which would negatively impact our liquidity and earnings.

Changes in the value of our interest rate swaps could require us to post additional cash collateral with our counterparties, which could negatively impact, our liquidity and financial condition.

In the normal course of our business, we use a variety of financial instruments to manage or hedge interest rate risk. We have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to certain of our hedge agreements, we are required to secure our obligation to our counterparty if the fair value liability exceeds a specified threshold by posting cash or other collateral. In periods of significant volatility in the credit markets, the value of our swaps can change significantly and, as a result, the amount of collateral we are required to post can change significantly. If we are required to post additional collateral due to changes in the fair value liability of our existing or future swaps, our liquidity and financial condition could be negatively impacted. We also are exposed to the risk that our counterparties to our hedge agreements will default on their obligations. We manage our exposure to this risk by limiting the counterparties to major international banks and financial institutions meeting established guidelines. However, any default by such counterparties may have an adverse effect on us.

We have a history of losses and we may not be able to achieve profitability.

We have incurred net losses in every quarter since our formation in June 2005. Given our history of losses, there can be no assurance that we will be able to achieve and/or maintain profitability in the future. If we do not effectively manage our cash flow and combined business operations going forward or otherwise achieve profitability, our stock price would be adversely affected.

If we do not effectively manage our growth and successfully integrate new or recently-acquired or initiated operations into our existing operations, our business and financial results could be adversely affected.

Our growth has and will continue to place significant demands on our current management resources. Our ability to manage our growth effectively and to successfully integrate new or recently-acquired or initiated operations (including expansions, developments, acquisitions and the expansion of our ancillary services program) into our existing business will require us to continue to expand our operational, financial and management information

systems and to continue to retain, attract, train, motivate and manage key employees. There can be no assurance that we will be successful in attracting qualified individuals to the extent necessary, and management may expend significant time and energy attracting the appropriate personnel to manage assets we purchase in the future and our expansion and development activities. Also, the additional communities and expansion activities will require us to maintain consistent quality control measures that allow our management to effectively identify deviations that result in delivering care and services that are substandard, which may result in litigation and/or loss of licensure or certification. If we are unable to manage our growth effectively, successfully integrate new or recently-acquired or initiated operations into our existing business, or maintain consistent quality control measures, our business, financial condition and results of operations could be adversely affected.

Delays in obtaining regulatory approvals could hinder our plans to expand our ancillary services program, which could negatively impact our anticipated revenues, results of operations and cash flows.

We plan to continue to expand our offering of ancillary services (including therapy, home health and hospice) to additional communities. In the current environment, it is difficult to obtain certain required regulatory approvals. Delays in obtaining required regulatory approvals could impede our ability to expand to additional communities in accordance with our plans, which could negatively impact our anticipated revenues, results of operations and cash flows.

If we are unable to expand our communities in accordance with our plans, our anticipated revenues and results of operations could be adversely affected.

We are currently working on projects that will expand a number of our existing senior living communities over the next several years. These projects are in various stages of development and are subject to a number of factors over which we have little or no control. Such factors include the necessity of arranging separate leases, mortgage loans or other financings to provide the capital required to complete these projects; difficulties or delays in obtaining zoning, land use, building, occupancy, licensing, certificate of need and other required governmental permits and approvals; failure to complete construction of the projects on budget and on schedule; failure of third-party contractors and subcontractors to perform under their contracts; shortages of labor or materials that could delay projects or make them more expensive; adverse weather conditions that could delay completion of projects; increased costs resulting from general economic conditions or increases in the cost of materials; and increased costs as a result of changes in laws and regulations. We cannot assure you that we will elect to undertake or complete all of our proposed expansion and development projects, or that we will not experience delays in completing those projects. In addition, we may incur substantial costs prior to achieving stabilized occupancy for each such project and cannot assure you that these costs will not be greater than we have anticipated. We also cannot assure you that any of our expansion or development projects will be economically successful. Our failure to achieve our expansion and development plans could adversely impact our growth objectives, and our anticipated revenues and results of operations.

We may encounter difficulties in acquiring communities at attractive prices or integrating acquisitions with our operations, which may adversely affect our operations and financial condition.

We will continue to selectively target strategic acquisitions as opportunities arise. The process of integrating acquired communities into our existing operations may result in unforeseen operating difficulties, divert managerial attention or require significant financial resources. These acquisitions and other future acquisitions may require us to incur additional indebtedness and contingent liabilities, and may result in unforeseen expenses or compliance issues, which may limit our revenue growth, cash flows, and our ability to achieve profitability. Moreover, any future acquisitions may not generate any additional income for us or provide any benefit to our business. In addition, we cannot assure you that we will be able to locate and acquire communities at attractive prices in locations that are compatible with our strategy or that competition for the acquisition of communities will not increase. Finally, when we are able to locate communities and enter into definitive agreements to acquire or lease them, we cannot assure you that the transactions will be completed. Failure to complete transactions after we have entered into definitive agreements may result in significant expenses to us.

Unforeseen costs associated with the acquisition of communities could reduce our future profitability.

Our growth strategy contemplates selected future acquisitions of existing senior living operating companies and communities. Despite our extensive underwriting and due diligence procedures, communities that we have

previously acquired or may acquire in the future may generate unexpectedly low or no returns or may not meet a risk profile that our investors find acceptable. In addition, we might encounter unanticipated difficulties and expenditures relating to any of the acquired communities, including contingent liabilities, or newly acquired communities might require significant management attention that would otherwise be devoted to our ongoing business. For example, a community may require capital expenditures in excess of budgeted amounts, or it may experience management turnover that is higher than we project. These costs may negatively affect our future profitability.

Competition for the acquisition of strategic assets from buyers with lower costs of capital than us or that have lower return expectations than we do could limit our ability to compete for strategic acquisitions and therefore to grow our business effectively.

Several real estate investment trusts, or REITs, have similar asset acquisition objectives as we do, along with greater financial resources and lower costs of capital than we are able to obtain. This may increase competition for acquisitions that would be suitable to us, making it more difficult for us to compete and successfully implement our growth strategy. There is significant competition among potential acquirers in the senior living industry, including REITs, and there can be no assurance that we will be able to successfully implement our growth strategy or complete acquisitions, which could limit our ability to grow our business effectively. Partially as a result of recent tax law changes enacted through RIDEA, we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties.

We may need additional capital to fund our operations and finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow.

Continued expansion of our business through the expansion, redevelopment and repositioning of our existing communities, the development of new communities and the acquisition of existing senior living operating companies and communities will require additional capital, particularly if we were to accelerate our expansion and acquisition plans. Financing may not be available to us or may be available to us only on terms that are not favorable. In addition, certain of our outstanding indebtedness and long-term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to delay or abandon some or all of our growth strategies. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock.

In addition, we are heavily dependent on mortgage financing provided by Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, the "Agency Lenders"). The Agency Lenders are currently operating under a conservatorship begun in 2008, conducting business under the direction of the Federal Housing Finance Agency. Reform efforts related to the Agency Lenders may make such financing sources less available or unavailable in the future and may cause us to seek alternative sources of potentially less attractive financing. There can be no assurance that such alternative sources will be available.

We are susceptible to risks associated with the lifecare benefits that we offer the residents of our lifecare entrance fee communities.

As of December 31, 2010, we operated 11 lifecare entrance fee communities that offer residents a limited lifecare benefit. Residents of these communities pay an upfront entrance fee upon occupancy, of which a portion is generally refundable, with an additional monthly service fee while living in the community. This limited lifecare benefit is typically (a) a certain number of free days in the community's health center during the resident's lifetime, (b) a discounted rate for such services, or (c) a combination of the two. The lifecare benefit varies based upon the extent to which the resident's entrance fee is refundable. The pricing of entrance fees, refundability provisions, monthly service fees, and lifecare benefits are determined utilizing actuarial projections of the expected morbidity and mortality of the resident population. In the event the entrance fees and monthly service payments established for our communities are not sufficient to cover the cost of lifecare benefits granted to residents, the results of operations and financial condition of these communities could be adversely affected.

Table of Contents

Residents of these entrance fee communities are guaranteed a living unit and nursing care at the community during their lifetime, even if the resident exhausts his or her financial resources and becomes unable to satisfy his or her obligations to the community. In addition, in the event a resident requires nursing care and there is insufficient capacity for the resident in the nursing facility at the community where the resident lives, the community must contract with a third party to provide such care. Although we screen potential residents to ensure that they have adequate assets, income, and reimbursements from government programs and third parties to pay their obligations to our communities during their lifetime, we cannot assure you that such assets, income, and reimbursements will be sufficient in all cases. If insufficient, we have rights of set-off against the refundable portions of the residents' deposits, and would also seek available reimbursement under Medicaid or other available programs. To the extent that the financial resources of some of the residents are not sufficient to pay for the cost of facilities and services provided to them, or in the event that our communities must pay third parties to provide nursing care to residents of our communities, our results of operations and financial condition would be adversely affected.

The geographic concentration of our communities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas, resulting in a decrease in our revenues or an increase in our costs, or otherwise negatively impacting our results of operations.

We have a high concentration of communities in various geographic areas, including the states of Florida, Texas, North Carolina, California, Colorado, Ohio and Arizona. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to assisted living communities, acts of nature and other factors that may result in a decrease in demand for senior living services in these states could have an adverse effect on our revenues, costs and results of operations. In addition, given the location of our communities, we are particularly susceptible to revenue loss, cost increase or damage caused by other severe weather conditions or natural disasters such as hurricanes, earthquakes or tornados. Any significant loss due to a natural disaster may not be covered by insurance and may lead to an increase in the cost of insurance.

Termination of our resident agreements and vacancies in the living spaces we lease could adversely affect our revenues, earnings and occupancy levels.

State regulations governing assisted living communities require written resident agreements with each resident. Several of these regulations also require that each resident have the right to terminate the resident agreement for any reason on reasonable notice. Consistent with these regulations, many of our assisted living resident agreements allow residents to terminate their agreements upon 0 to 30 days' notice. Unlike typical apartment leasing or independent living arrangements that involve lease agreements with specified leasing periods of up to a year or longer, in many instances we cannot contract with our assisted living residents to stay in those living spaces for longer periods of time. Our retirement center resident agreements generally provide for termination of the lease upon death or allow a resident to terminate his or her lease upon the need for a higher level of care not provided at the community. If multiple residents terminate their resident agreements at or around the same time, our revenues, earnings and occupancy levels could be adversely affected. In addition, because of the demographics of our typical residents, including age and health, resident turnover rates in our communities are difficult to predict. As a result, the living spaces we lease may be unoccupied for a period of time, which could adversely affect our revenues and earnings.

Increases in the cost and availability of labor, including increased competition for or a shortage of skilled personnel or increased union activity, would have an adverse effect on our profitability and/or our ability to conduct our business operations.

Our success depends on our ability to retain and attract skilled management personnel who are responsible for the day-to-day operations of each of our communities. Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of care, social services and financial performance. Depending upon the size of the community, each Executive Director is supported by a community staff member who is directly responsible for day-to-day care of the residents and either community staff or regional support to oversee the community's marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, healthcare services, therapy services, activities, housekeeping and engineering. We compete with various health care service providers, including other senior living providers, in retaining and attracting qualified and skilled personnel. Increased

competition for or a shortage of nurses, therapists or other trained personnel, or general inflationary pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge to our residents or our service charges, which would negatively impact our results of operations. Turnover rates and the magnitude of the shortage of nurses, therapists or other trained personnel varies substantially from market to market. Although reliable industry-wide data on key employee retention does not exist, we believe that our employee retention rates are consistent with those of other national senior housing operators. If we fail to attract and retain qualified and skilled personnel, our ability to conduct our business operations effectively, our ability to implement our growth strategy, and our overall operating results could be harmed.

In addition, efforts by labor unions to unionize any of our community personnel could divert management attention, lead to increases in our labor costs and/or reduce our flexibility with respect to certain workplace rules. Recently proposed legislation known as the Employee Free Choice Act, or card check, and/or related regulatory proposals could make it significantly easier for union organizing drives to be successful, leading to increased organizational activity, and could give third-party arbitrators the ability to impose terms of collective bargaining agreements upon us and a labor union if we and such union are unable to agree to the terms of a collective bargaining agreement. If we experience an increase in organizing activity, if onerous collective bargaining agreement terms are imposed upon us, or if we otherwise experience an increase in our staffing and labor costs, our profitability and cash flows from operations would be negatively affected.

Departure of our key officers could harm our business.

Our future success depends, to a significant extent, upon the continued service of our senior management personnel, particularly: W.E. Sheriff, our Chief Executive Officer; Mark W. Ohlendorf, our Co-President and Chief Financial Officer; John P. Rijos, our Co-President and Chief Operating Officer; and T. Andrew Smith, our Executive Vice President, General Counsel and Secretary. If we were to lose the services of any of these individuals, our business and financial results could be adversely affected.

Environmental contamination at any of our communities could result in substantial liabilities to us, which may exceed the value of the underlying assets and which could materially and adversely effect our liquidity and earnings.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property, such as us, may be held liable in certain circumstances for the costs of investigation, removal or remediation of, or related to the release of, certain hazardous or toxic substances, that could be located on, in, at or under a property, regardless of how such materials came to be located there. The cost of any required investigation, remediation, removal, mitigation, compliance, fines or personal or property damages and our liability therefore could exceed the property's value and/or our assets' value. In addition, the presence of such substances, or the failure to properly dispose of or remediate the damage caused by such substances, may adversely affect our ability to sell such property, to attract additional residents and retain existing residents, to borrow using such property as collateral or to develop or redevelop such property. In addition, such laws impose liability, which may be joint and several, for investigation, remediation, removal and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances as well as without regard to whether such release or disposal was in compliance with law at the time it occurred. Although we do not believe that we have incurred such liabilities as would have a material adverse effect on our business, financial condition and results of operations, we could be subject to substantial future liability for environmental contamination that we have no knowledge about as of the date of this report and/or for which we may not be at fault.

Failure to comply with existing environmental laws could result in increased expenditures, litigation and potential loss to our business and in our asset value, which would have an adverse effect on our earnings and financial condition.

Our operations are subject to regulation under various federal, state and local environmental laws, including those relating to: the handling, storage, transportation, treatment and disposal of medical waste products generated at our communities; identification and warning of the presence of asbestos-containing materials in buildings, as well

Table of Contents

as removal of such materials; the presence of other substances in the indoor environment; and protection of the environment and natural resources in connection with development or construction of our properties.

Some of our communities generate infectious or other hazardous medical waste due to the illness or physical condition of the residents. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste, but the use of such waste management companies does not immunize us from alleged violations of such laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to cleanup disposal sites at which such wastes have been disposed.

Federal regulations require building owners and those exercising control over a building's management to identify and warn their employees and certain other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their buildings. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potential asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials.

The presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may lead to the incurrence of costs for remediation, mitigation or the implementation of an operations and maintenance plan and may result in third party litigation for personal injury or property damage. Furthermore, in some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract residents and could adversely affect a community's market value.

Although we believe that we are currently in material compliance with applicable environmental laws, if we fail to comply with such laws in the future, we would face increased expenditures both in terms of fines and remediation of the underlying problem(s), potential litigation relating to exposure to such materials, and potential decrease in value to our business and in the value of our underlying assets. Therefore, our failure to comply with existing environmental laws would have an adverse effect on our earnings, our financial condition and our ability to pursue our growth strategy.

We are unable to predict the future course of federal, state and local environmental regulation and legislation. Changes in the environmental regulatory framework (including legislative or regulatory efforts designed to address climate change, such as the proposed "cap and trade" legislation) could have a material adverse effect on our business. In addition, because environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

We are subject to risks associated with complying with Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to various regulatory requirements, including the Sarbanes-Oxley Act of 2002. Under Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to include a report with each Annual Report on Form 10-K regarding our internal control over financial reporting. We have implemented processes documenting and evaluating our system of internal controls. Complying with these requirements is expensive, time consuming and subject to changes in regulatory requirements. The existence of one or more material weaknesses, management's conclusion that its internal control over financial reporting is not effective, or the inability of our auditors to express an opinion that our internal control over financial reporting is effective, could result in a loss of investor confidence in our financial reports, adversely affect our stock price and/or subject us to sanctions or investigation by regulatory authorities.

Risks Related to Pending Litigation

Complaints filed against us could, if adversely determined, subject us to a material loss.

We have been and are currently involved in litigation and claims incidental to the conduct of our business which are comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. Similarly, the senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in litigation related to regulatory compliance matters. As a result, we maintain insurance policies in amounts and with coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. Effective January 1, 2009 through December 31, 2009, our policies provided for deductibles of \$250,000 for each claim on a claims-made basis. Effective January 1, 2010, our current policies are also written on a claims-made basis and provide for deductibles of \$150,000 for each claim. Accordingly, we are, in effect, self-insured for claims that are less than \$150,000. If we experience a greater number of losses than we anticipate, or if certain claims are not ultimately covered by insurance, our results of operation and financial condition could be adversely affected.

Risks Related to Our Industry

The cost and difficulty of complying with increasing and evolving regulation and enforcement could have an adverse effect on our business operations and profits.

The regulatory environment surrounding the senior living industry continues to evolve and intensify in the amount and type of laws and regulations affecting it, many of which vary from state to state. In addition, many senior living communities are subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. In several of the states in which we operate or may operate, we are prohibited from providing certain higher levels of senior care services without first obtaining the appropriate licenses. Also, in several of the states in which we operate or intend to operate, assisted living communities and/or skilled nursing facilities require a certificate of need before the community can be opened or the services at an existing community can be expanded. Furthermore, federal, state and local officials are increasingly focusing their efforts on enforcement of these laws, particularly with respect to large for-profit, multi-community providers like us. These requirements, and the increased enforcement thereof, could affect our ability to expand into new markets, to expand our services and communities in existing markets and, if any of our presently licensed communities were to operate outside of its licensing authority, may subject us to penalties including closure of the community. Future regulatory developments as well as mandatory increases in the scope and severity of deficiencies determined by survey or inspection officials could cause our operations to suffer. We are unable to predict the future course of federal, state and local legislation or regulation. If regulatory requirements increase, whether through enactment of new laws or regulations or changes in the enforcement of existing rules, our earnings and operations could be adversely affected.

The intensified regulatory and enforcement environment impacts providers like us because of the increase in the number of inspections or surveys by governmental authorities and consequent citations for failure to comply with regulatory requirements. We also expend considerable resources to respond to federal and state investigations or other enforcement action. From time to time in the ordinary course of business, we receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. Although most inspection deficiencies are resolved through an agreed-to plan of corrective action, the reviewing agency typically has the authority to take further action against a licensed or certified facility, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Furthermore, certain states may allow citations in one community to impact other communities in the state. Revocation of a license at a given community could therefore impact our ability to obtain new licenses or to renew existing licenses at other communities, which may also cause us to be in default under our leases, trigger cross-defaults, trigger defaults under certain of our credit agreements or adversely affect our ability to operate and/or obtain financing in the future. If a state were to find that one community's citation would impact another of our communities, this would also increase costs and result in increased surveillance by the state survey agency. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues.

However, the failure to comply with applicable legal and regulatory requirements in the future could result in a material adverse effect to our business as a whole.

There are various extremely complex federal and state laws governing a wide array of referral relationships and arrangements and prohibiting fraud by health care providers, including those in the senior living industry, and governmental agencies are devoting increasing attention and resources to such anti-fraud initiatives. Some examples are the Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Balanced Budget Act of 1997, and the False Claims Act, which gives private individuals the ability to bring an action on behalf of the federal government. The violation of any of these laws or regulations may result in the imposition of fines or other penalties that could increase our costs and otherwise jeopardize our business. Under the Deficit Reduction Act of 2005, or DRA 2005, every entity that receives at least \$5 million annually in Medicaid payments must have established written policies for all employees, contractors or agents, providing detailed information about false claims, false statements and whistleblower protections under certain federal laws, including the federal False Claims Act, and similar state laws. Failure to comply with this new compliance requirement may potentially give rise to potential liability. DRA 2005 also creates an incentive for states to enact false claims laws that are comparable to the federal False Claims Act.

Additionally, we provide services and operate communities that participate in federal and/or state health care reimbursement programs, which makes us subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state and we cannot be sure that these laws will be interpreted consistently or in keeping with past practice. Violation of any of these laws can result in loss of licensure, civil or criminal penalties and exclusion of health care providers or suppliers from furnishing covered items or services to beneficiaries of the applicable federal and/or state health care reimbursement program. Loss of licensure may also cause us to default under our leases and/or trigger cross-defaults.

We are also subject to certain federal and state laws that regulate financial arrangements by health care providers, such as the Federal Anti-Kickback Law, the Stark laws and certain state referral laws. Authorities have interpreted the Federal Anti-Kickback Law very broadly to apply to many practices and relationships between health care providers and sources of patient referral. This could result in criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as Medicare and Medicaid, which may also cause us to default under our leases and/or trigger cross-defaults. Adverse consequences may also result if we violate federal Stark laws related to certain Medicare and Medicaid physician referrals. While we endeavor to comply with all laws that regulate the licensure and operation of our business, it is difficult to predict how our revenues could be affected if we were subject to an action alleging such violations.

Compliance with the Americans with Disabilities Act (especially as recently amended), Fair Housing Act and fire, safety and other regulations may require us to make unanticipated expenditures, which could increase our costs and therefore adversely affect our earnings and financial condition.

All of our communities are required to comply with the Americans with Disabilities Act, or ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial properties," but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of government fines or an award of damages to private, litigants.

We must also comply with the Fair Housing Act, which prohibits us from discriminating against individuals on certain bases in any of our practices if it would cause such individuals to face barriers in gaining residency in any of our communities. Additionally, the Fair Housing Act and other state laws require that we advertise our services in such a way that we promote diversity and not limit it. We may be required, among other things, to change our marketing techniques to comply with these requirements.

In addition, we are required to operate our communities in compliance with applicable fire and safety regulations, building codes and other land use regulations and food licensing or certification requirements as they may be adopted by governmental agencies and bodies from time to time. Like other health care facilities, senior living communities are subject to periodic survey or inspection by governmental authorities to assess and assure compliance with regulatory requirements. Surveys occur on a regular (often annual or bi-annual) schedule, and

special surveys may result from a specific complaint filed by a resident, a family member or one of our competitors. We may be required to make substantial capital expenditures to comply with those requirements.

Capital expenditures we have made to comply with any of the above to date have been immaterial, however, the increased costs and capital expenditures that we may incur in order to comply with any of the above would result in a negative effect on our earnings, and financial condition.

Significant legal actions and liability claims against us in excess of insurance limits could subject us to increased operating costs and substantial uninsured liabilities, which may adversely affect our financial condition and operating results.

The senior living and healthcare services businesses entails an inherent risk of liability, particularly given the demographics of our residents, including age and health, and the services we provide. In recent years, we, as well as other participants in our industry, have been subject to an increasing number of claims and lawsuits alleging that our services have resulted in resident injury or other adverse effects. Many of these lawsuits involve large damage claims and significant legal costs. Many states continue to consider tort reform and how it will apply to the senior living industry. We may continue to be faced with the threat of large jury verdicts in jurisdictions that do not find favor with large senior living or healthcare providers. We maintain liability insurance policies in amounts and with the coverage and deductibles we believe are adequate based on the nature and risks of our business, historical experience and industry standards. We have formed a wholly-owned "captive" insurance company for the purpose of insuring certain portions of our risk retention under our general and professional liability insurance programs. There can be no guarantee that we will not have any claims that exceed our policy limits in the future.

If a successful claim is made against us and it is not covered by our insurance or exceeds the policy limits, our financial condition and results of operations could be materially and adversely affected. In some states, state law may prohibit or limit insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation. As a result, we may be liable for punitive damage awards in these states that either are not covered or are in excess of our insurance policy limits. Also, the above deductibles, or self-insured retention, are accrued based on an actuarial projection of future liabilities. If these projections are inaccurate and if there are an unexpectedly large number of successful claims that result in liabilities in excess of our self-insured retention, our operating results could be negatively affected. Claims against us, regardless of their merit or eventual outcome, also could have a material adverse effect on our ability to attract residents or expand our business and could require our management to devote time to matters unrelated to the day-to-day operation of our business. We also have to renew our policies every year and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. There can be no assurance that we will be able to obtain liability insurance in the future or, if available, that such coverage will be available on acceptable terms.

Overbuilding and increased competition may adversely affect our ability to generate and increase our revenues and profits and to pursue our business strategy.

The senior living industry is highly competitive, and we expect that it may become more competitive in the future. We compete with numerous other companies that provide long-term care alternatives such as home healthcare agencies, therapy services, life care at home, community-based service programs, retirement communities, convalescent centers and other independent living, assisted living and skilled nursing providers, including not-for-profit entities. In general, regulatory and other barriers to competitive entry in the independent living and assisted living sectors of the senior living industry are not substantial. We have experienced and expect to continue to experience increased competition in our efforts to acquire and operate senior living communities. Consequently, we may encounter increased competition that could limit our ability to attract new residents, raise resident fees or expand our business, which could have a material adverse effect on our revenues and earnings.

In addition, overbuilding in the late 1990's in the senior living industry reduced the occupancy rates of many newly constructed buildings and, in some cases, reduced the monthly rate that some newly built and previously existing communities were able to obtain for their services. This resulted in lower revenues for certain of our communities during that time. While we believe that overbuilt markets have stabilized and should continue to be stabilized for the immediate future, we cannot be certain that the effects of this period of overbuilding will not affect our occupancy and resident fee rate levels in the future, nor can we be certain that another period of

overbuilding in the future will not have the same effects. Moreover, while we believe that the new construction dynamics and the competitive environments in the states in which we operate are substantially similar to the national market, taken as a whole, if the dynamics or environment were to be significantly adverse in one or more of those states, it would have a disproportionate effect on our revenues (due to the large portion of our revenues that are generated in those states).

Risks Related to Our Organization and Structure

If the ownership of our common stock continues to be highly concentrated, it may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest.

As of December 31, 2010, funds managed by affiliates of Fortress Investment Group LLC (“Fortress”) and various principals of Fortress, in the aggregate, beneficially own 20,091,326 shares, or approximately 16.6% of our outstanding common stock (excluding unvested restricted shares). In addition, two of our directors are associated with Fortress and, pursuant to our Stockholders Agreement, Fortress currently has the ability to require us to nominate two individuals designated by Fortress for election as members of our nine-member Board of Directors (subject to their election by our stockholders). As a result, Fortress may be able to effectively control and/or substantially influence fundamental and significant corporate matters and transactions, including: the election of directors; mergers, consolidations or acquisitions; the sale of all or substantially all of our assets and other decisions affecting our capital structure; the amendment of our amended and restated certificate of incorporation and our amended and restated by-laws; and the dissolution of the Company. Fortress’s interests, including its ownership of the North American operations of Holiday Retirement Corp., one of our competitors, may conflict with your interests. Their effective control of (and/or substantial influence over) the Company could delay, deter or prevent acts that may be favored by our other stockholders such as hostile takeovers, changes in control of the Company and changes in management. As a result of such actions, the market price of our common stock could decline or stockholders might not receive a premium for their shares in connection with a change of control of the Company.

Anti-takeover provisions in our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that you may consider favorable or prevent the removal of our current board of directors and management.

Certain provisions of our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that you may consider favorable or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including:

- a staggered board of directors consisting of three classes of directors, each of whom serve three-year terms;
- removal of directors only for cause, and only with the affirmative vote of at least 80% of the voting interest of stockholders entitled to vote;
- blank-check preferred stock;
- provisions in our amended and restated certificate of incorporation and amended and restated by-laws preventing stockholders from calling special meetings;
- advance notice requirements for stockholders with respect to director nominations and actions to be taken at annual meetings; and
- no provision in our amended and restated certificate of incorporation for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election.

Additionally, our amended and restated certificate of incorporation provides that Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders in certain situations, will not apply to us. This may make it easier for a third party to acquire an interest in some or all of us

with Fortress' approval, even though our other stockholders may not deem such an acquisition beneficial to their interests.

We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- variations in our quarterly operating results;
- changes in our earnings estimates;
- the contents of published research reports about us or the senior living industry or the failure of securities analysts to cover our common stock;
- additions or departures of key management personnel;
- any increased indebtedness we may incur or lease obligations we may enter into in the future;
- actions by institutional stockholders;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- speculation or reports by the press or investment community with respect to the Company or the senior living industry in general;
- increases in market interest rates that may lead purchasers of our shares to demand a higher yield;
- changes or proposed changes in laws or regulations affecting the senior living industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market and economic conditions.

Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by offering debt or additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes, series of preferred shares or shares of our common stock. Upon liquidation, holders of our debt securities and preferred stock, and lenders with respect to other borrowings, would receive a distribution of our available assets prior to the holders of our

common stock. Additional equity offerings may dilute the economic and voting rights of our existing stockholders or reduce the market price of our common stock, or both. Shares of our preferred stock, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their share holdings in us.

We may issue all of the shares of our common stock that are authorized but unissued and not otherwise reserved for issuance under our stock incentive or purchase plans without any action or approval by our stockholders. We intend to continue to pursue selected acquisitions of senior living communities and may issue shares of common stock in connection with these acquisitions. Any shares issued in connection with our acquisitions or otherwise would dilute the holdings of our current stockholders.

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.

At December 31, 2010, 120,776,794 shares of our common stock were outstanding (excluding unvested restricted shares). All of the shares of our common stock are freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, or any shares otherwise subject to the limitations of Rule 144.

Pursuant to our Stockholders Agreement, Fortress and certain of its affiliates and permitted third-party transferees have the right, in certain circumstances, to require us to register their shares of our common stock under the Securities Act for sale into the public markets. Upon the effectiveness of such a registration statement, all shares covered by the registration statement will be freely transferable. In connection with our obligations under the Stockholders Agreement, we received a request from Fortress to file a registration statement on Form S-3 to permit the resale, from time to time, of up to 60,875,826 shares of common stock owned by certain affiliates of Fortress. The registration statement on Form S-3 was declared effective on May 22, 2009 and 18,205,000 shares owned by affiliates of Fortress were sold pursuant to the registration statement in November 2009. In addition, an aggregate of 23,000,000 shares owned by affiliates and various principals of Fortress were sold pursuant to the registration statement in May 2010 and November 2010.

In addition, as of December 31, 2010, we had registered under the Securities Act an aggregate of 12,100,000 shares for issuance under our Omnibus Stock Incentive Plan, an aggregate of 1,000,000 shares for issuance under our Associate Stock Purchase Plan and an aggregate of 100,000 shares for issuance under our Director Stock Purchase Plan. In accordance with the terms of the Omnibus Stock Incentive Plan, the number of shares available for issuance automatically increases by 400,000 shares on January 1 of each year. Pursuant to the terms of the Associate Stock Purchase Plan, the number of shares available for purchase under the plan automatically increases by 200,000 shares on the first day of each calendar year beginning January 1, 2010.

Subject to any restrictions imposed on the shares and options granted under our stock incentive programs, shares registered under these registration statements will be available for sale into the public markets.

Our ability to use net operating loss carryovers to reduce future tax payments will be limited.

Section 382 of the Internal Revenue code contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of 50% of its stock over a three-year period, to utilize its net operating loss carryforward and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes involving stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company. We have determined that an ownership change occurred within the second quarter of 2010, and, therefore, losses carried into the change period will be limited on a go forward basis. The annual limitation is equal to the product of the applicable long term tax exempt rate and the value of our stock immediately before the ownership change, adjusted for certain items. The annual limitation may be increased by certain built-in gains existing at the time of change. In addition to the second quarter ownership change, we have had previous ownership changes.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Facilities

At December 31, 2010, we operated 559 communities across 34 states, with the capacity to serve approximately 51,300 residents. Of the communities we operated at December 31, 2010, we owned 189, we leased 351 pursuant to operating and capital leases, and 19 were managed by us and fully or majority owned by third parties.

The following table sets forth certain information regarding our communities at December 31, 2010:

State	Occupancy		Ownership Status			Total
	Units	Rate ⁽¹⁾⁽²⁾	Owned	Leased	Managed	
Alabama	1,087	88.8%	2	5	-	7
Arizona	2,133	86.0%	3	11	2	16
California	3,194	89.2%	14	6	1	21
Colorado	2,731	88.5%	6	17	2	25
Connecticut	425	81.4%	2	2	-	4
Delaware	54	96.3%	1	-	-	1
Florida	8,950	84.6%	34	39	3	76
Georgia	508	85.0%	4	-	1	5
Idaho	228	82.9%	2	1	-	3
Illinois	2,465	90.4%	2	9	-	11
Indiana	1,306	82.5%	7	10	-	17
Kansas	1,477	87.3%	10	11	2	23
Kentucky	349	97.4%	-	1	-	1
Louisiana	84	91.7%	1	-	-	1
Massachusetts	280	85.7%	-	1	-	1
Michigan	2,420	88.8%	8	25	1	34
Minnesota	723	87.3%	-	16	1	17
Mississippi	37	59.5%	-	1	-	1
Missouri	926	89.0%	2	1	-	3
Nevada	302	85.1%	1	2	-	3
New Jersey	494	84.6%	2	6	-	8
New Mexico	431	87.0%	1	2	-	3
New York	1,157	90.8%	6	10	-	16
North Carolina	3,153	90.3%	4	50	-	54
Ohio	2,854	85.8%	21	18	-	39
Oklahoma	1,129	87.7%	2	24	1	27
Oregon	765	92.5%	4	8	-	12
Pennsylvania	939	87.2%	5	3	-	8
South Carolina	545	73.6%	4	7	-	11
Tennessee	1,326	90.0%	14	8	-	22
Texas	5,937	87.0%	18	33	5	56
Virginia	1,416	86.9%	3	3	-	6
Washington	1,044	90.1%	4	8	-	12
Wisconsin	444	92.3%	2	13	-	15
Total	51,313	87.3%	189	351	19	559

(1) Includes the impact of managed properties.

(2) Represents occupancy at the end of the period.

A significant majority of our owned properties are subject to mortgages.

Corporate Offices

Our main corporate offices are all leased, including our 55,296 square foot facility in Nashville, Tennessee, our 99,374 square foot facility in Milwaukee, Wisconsin and our 31,845 square foot facility in Chicago, Illinois.

Item 3. Legal Proceedings.

The information contained in Note 23 to the consolidated financial statements contained in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. (Removed and Reserved).

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 25, 2011:

<u>Name</u>	<u>Age</u>	<u>Position</u>
W.E. Sheriff	68	Chief Executive Officer
Mark W. Ohlendorf	50	Co-President and Chief Financial Officer
John P. Rijos	58	Co-President and Chief Operating Officer
T. Andrew Smith	50	Executive Vice President, General Counsel and Secretary
Bryan D. Richardson	52	Executive Vice President and Chief Administrative Officer
Gregory B. Richard	56	Executive Vice President – Field Operations
Kristin A. Ferge	37	Executive Vice President and Treasurer
George T. Hicks	53	Executive Vice President – Finance
H. Todd Kaestner	55	Executive Vice President – Corporate Development

W.E. Sheriff has served as our Chief Executive Officer since February 2008 and as a member of our Board of Directors since January 2010. He previously served as our Co-Chief Executive Officer from July 2006 until February 2008. Previously, Mr. Sheriff served as Chairman and Chief Executive Officer of ARC and its predecessors since April 1984 and as its President since November 2003. From 1973 to 1984, Mr. Sheriff served in various capacities for Ryder System, Inc., including as President and Chief Executive Officer of its Truckstops of America division. Mr. Sheriff also serves on the boards of various educational and charitable organizations and in varying capacities with several trade organizations.

Mark W. Ohlendorf became our Co-President in August 2005 and our Chief Financial Officer in March 2007. Mr. Ohlendorf previously served as Chief Executive Officer and President of Alterra from December 2003 until August 2005. From January 2003 through December 2003, Mr. Ohlendorf served as Chief Financial Officer and President of Alterra, and from 1999 through 2002 he served as Senior Vice President and Chief Financial Officer of Alterra. Mr. Ohlendorf has over 25 years of experience in the health care and long-term care industries, having held leadership positions with such companies as Sterling House Corporation, Vitas Healthcare Corporation and Horizon/CMS Healthcare Corporation. He is a member of the board of directors of the Assisted Living Federation of America.

John P. Rijos became our Co-President in August 2005 and our Chief Operating Officer in January 2008. Previously, Mr. Rijos served as President and Chief Operating Officer and as a director of BLC since August 2000. Prior to joining BLC in August 2000, Mr. Rijos spent 16 years with Lane Hospitality Group, owners and operators of over 40 hotels and resorts, as its President and Chief Operating Officer. From 1981 to 1985 he served as President of High Country Corporation, a Denver-based hotel development and management company. Prior to that time, Mr. Rijos was Vice President of Operations and Development of several large real estate trusts specializing in hotels. Mr. Rijos has over 25 years of experience in the acquisition, development and operation of hotels and resorts. He serves on many tourist-related operating boards and committees, as well as advisory committees for Holiday Inns, Sheraton Hotels and the City of Chicago and the Board of Trustees for Columbia College. Mr. Rijos is a certified hospitality administrator.

T. Andrew Smith became our Executive Vice President, General Counsel and Secretary in October 2006. Previously, Mr. Smith was with Bass, Berry & Sims PLC in Nashville, Tennessee from 1985 to 2006. Mr. Smith was a member of that firm's corporate and securities group, and served as the chair of the firm's healthcare group.

Bryan D. Richardson became our Executive Vice President in July 2006 and our Chief Administrative Officer in January 2008. Mr. Richardson also served as our Chief Accounting Officer from September 2006 through

Table of Contents

April 2008. Previously, Mr. Richardson served as Executive Vice President – Finance and Chief Financial Officer of ARC since April 2003 and previously served as its Senior Vice President – Finance since April 2000. Mr. Richardson was formerly with a national graphic arts company from 1984 to 1999 serving in various capacities, including Senior Vice President of Finance of a digital prepress division from May 1994 to October 1999, and Senior Vice President of Finance and Chief Financial Officer from 1989 to 1994. Mr. Richardson was previously with the national public accounting firm PriceWaterhouseCoopers.

Gregory B. Richard has served as our Executive Vice President – Field Operations since January 2008. He previously served as our Executive Vice President – Operations from July 2006 through December 2007. Previously, Mr. Richard served as Executive Vice President and Chief Operating Officer of ARC since January 2003 and previously served as its Executive Vice President-Community Operations since January 2000. Mr. Richard was formerly with a pediatric practice management company from May 1997 to May 1999, serving as President and Chief Executive Officer from October 1997 to May 1999. Prior to this, Mr. Richard was with Rehabilitation Corporation, a publicly traded outpatient physical rehabilitation service provider, from July 1986 to October 1996, serving as Senior Vice President of Operations and Chief Operating Officer from September 1992 to October 1996.

Kristin A. Ferge became our Executive Vice President and Treasurer in August 2005. Ms. Ferge also served as our Chief Administrative Officer from March 2007 through December 2007. She previously served as Vice President, Chief Financial Officer and Treasurer of Alterra from December 2003 until August 2005. From April 2000 through December 2003, Ms. Ferge served as Alterra's Vice President of Finance and Treasurer. Prior to joining Alterra, she worked in the audit division of KPMG LLP. Ms. Ferge is a certified public accountant.

George T. Hicks became our Executive Vice President – Finance in July 2006. Previously, Mr. Hicks served as Executive Vice President – Finance and Internal Audit, Secretary and Treasurer of ARC since September 1993. Mr. Hicks had served in various capacities for ARC's predecessors since 1985, including Chief Financial Officer from September 1993 to April 2003 and Vice President – Finance and Treasurer from November 1989 to September 1993.

H. Todd Kaestner became our Executive Vice President – Corporate Development in July 2006. Previously, Mr. Kaestner served as Executive Vice President – Corporate Development of ARC since September 1993. Mr. Kaestner served in various capacities for ARC's predecessors since 1985, including Vice President – Development from 1988 to 1993 and Chief Financial Officer from 1985 to 1988.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol "BKD". The following table sets forth the range of high and low sales prices of our common stock for each quarter for the last two fiscal years.

Table of Contents

	Fiscal 2010	
	High	Low
First Quarter	\$ 22.21	\$ 16.21
Second Quarter	\$ 22.19	\$ 14.84
Third Quarter	\$ 16.44	\$ 12.66
Fourth Quarter	\$ 21.70	\$ 15.93

	Fiscal 2009	
	High	Low
First Quarter	\$ 7.16	\$ 2.50
Second Quarter	\$ 14.87	\$ 4.66
Third Quarter	\$ 20.41	\$ 8.39
Fourth Quarter	\$ 20.69	\$ 15.14

The closing sale price of our common stock as reported on the NYSE on February 25, 2011 was \$26.46 per share. As of that date, there were approximately 484 holders of record of our common stock.

Dividend Policy

On December 30, 2008, our Board of Directors voted to suspend our quarterly cash dividend indefinitely and no dividends were declared during the last two fiscal years. Although we anticipate that, over the longer-term, we may pay regular quarterly dividends to the holders of our common stock, over the near term we are focused on preserving liquidity and deploying capital in the growth of our business. Accordingly, we do not expect to pay cash dividends on our common stock for the foreseeable future.

Our ability to pay and maintain cash dividends in the future will be based on many factors, including then-existing contractual restrictions or limitations, our ability to execute our growth strategy, our ability to negotiate favorable lease and other contractual terms, anticipated operating expense levels, the level of demand for our units, occupancy rates, entrance fee sales results, the rates we charge, our liquidity position and actual results that may vary substantially from estimates. Some of the factors are beyond our control and a change in any such factor could affect our ability to pay or maintain dividends. We can give no assurance as to our ability to pay or maintain dividends in the future. We also cannot assure you that the level of dividends will be maintained or increase over time or that increases in demand for our units and monthly resident fees will increase our actual cash available for dividends to stockholders. As we have done in the past, we may also pay dividends in the future that exceed our net income for the relevant period as calculated in accordance with U.S. GAAP.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data.

The selected financial data should be read in conjunction with the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our historical consolidated financial statements and the related notes included elsewhere herein. The consolidated financial data includes Brookdale Living Communities, Inc. and Alterra Healthcare Corporation for all periods presented and the acquisition of American Retirement Corporation, effective July 25, 2006. Other acquisitions are discussed in Note 4 in the notes to the consolidated financial statements. Our historical statement of operations data and balance sheet data as of and for each of the years in the five-year period ended December 31, 2010 have been derived from our audited financial statements.

	For the Years Ended December 31, ⁽¹⁾				
	2010	2009	2008	2007	2006
Fiscal Year ended December 31,					
(in thousands, except per share data)					
Total revenue	\$ 2,213,264	\$ 2,023,068	\$ 1,928,054	\$ 1,839,296	\$ 1,309,913
Facility operating expense	1,437,930	1,302,277	1,261,581	1,170,937	819,801
General and administrative expense	131,709	134,864	140,919	138,013	117,897
Facility lease expense	270,905	272,096	269,469	271,628	228,779
Depreciation and amortization	292,341	271,935	276,202	299,925	188,129
Facility lease termination expense	4,608	—	—	—	—
(Gain) loss on sale of communities, net	(3,298)	2,043	—	—	—
Goodwill and asset impairment	13,075	10,073	220,026	—	—
Total operating expense	2,147,270	1,993,288	2,168,197	1,880,503	1,354,606
Income (loss) from operations	65,994	29,780	(240,143)	(41,207)	(44,693)
Interest income	2,238	2,354	7,618	7,519	6,810
Interest expense:					
Debt	(132,641)	(128,869)	(147,389)	(143,991)	(97,694)
Amortization of deferred financing costs and debt discount	(8,963)	(9,505)	(9,707)	(7,064)	(5,061)
Change in fair value of derivatives and amortization	(4,118)	3,765	(68,146)	(73,222)	(38)
Loss on extinguishment of debt, net	(1,557)	(1,292)	(3,052)	(2,683)	(1,526)
Equity in earnings (loss) of unconsolidated ventures	168	440	(861)	(3,386)	(3,705)
Other non-operating (expense) income	(1,454)	4,146	1,708	402	—
Loss before income taxes	(80,333)	(99,181)	(459,972)	(263,632)	(145,907)
Benefit for income taxes	31,432	32,926	86,731	101,260	38,491
Net loss	(48,901)	(66,255)	(373,241)	(162,372)	(107,416)
Net loss (income) attributable to noncontrolling interest	—	—	—	393	(671)
Net loss attributable to common stockholders	\$ (48,901)	\$ (66,255)	\$ (373,241)	\$ (161,979)	\$ (108,087)
Basic and diluted loss per share from operations attributable to common stockholders	\$ (0.41)	\$ (0.60)	\$ (3.67)	\$ (1.60)	\$ (1.34)
Weighted average shares of common stock used in computing basic and diluted loss per share	120,010	111,288	101,667	101,511	80,842
Dividends declared per share of common stock	\$ —	\$ —	\$ 0.75	\$ 1.95	\$ 1.55
Other Operating Data:					
Total number of communities (at end of period)	559	565	548	550	546
Total units operated ⁽²⁾⁽³⁾	50,870	49,536	49,165	52,086	51,271
Occupancy rate (weighted average) ⁽³⁾	87.1%	86.5%	87.6%	90.6%	91.1%
Average monthly revenue per unit ⁽³⁾⁽⁴⁾	\$ 4,439	\$ 4,253	\$ 4,031	\$ 3,577	\$ 3,247

	As of December 31,				
	2010	2009	2008	2007	2006
(dollars in thousands)					
Cash and cash equivalents	\$ 81,827	\$ 66,370	\$ 53,973	\$ 100,904	\$ 68,034
Total assets	\$ 4,530,470	\$ 4,649,879	\$ 4,449,258	\$ 4,811,622	\$ 4,756,000
Total debt	\$ 2,570,296	\$ 2,625,526	\$ 2,552,929	\$ 2,335,224	\$ 1,874,939
Noncontrolling interest	\$ —	\$ —	\$ —	\$ —	\$ 4,601
Total stockholders' equity	\$ 1,059,997	\$ 1,086,582	\$ 960,601	\$ 1,419,538	\$ 1,764,012

- (1) Prior to October 1, 2006, the effective portion of the change in fair value of derivatives was recorded in other comprehensive income and the ineffective portion was included in the change in fair value of derivatives in the consolidated statements of operations. On October 1, 2006, we elected to discontinue hedge accounting prospectively for the previously designated swap instruments. Gains and losses accumulated in other comprehensive income at that date of \$1.3 million related to the previously designated swap instruments are being amortized to interest expense over the life of the underlying hedged debt payments. Although hedge accounting was discontinued on October 1, 2006, the swap instruments remained outstanding and are carried at fair value in the consolidated balance sheets and the change in fair value beginning October 1, 2006 has been included in the consolidated statements of operations.
- (2) Total units operated represent the average units operated during the period, excluding equity homes.
- (3) Beginning in 2010, total units operated, occupancy rates and average monthly revenue per unit are reported using an average unit methodology based on a consistent treatment of units across all product lines, as compared to the historical method where occupancy was reported based upon unit calculations that varied by product line. Total units operated, occupancy rates and average monthly revenue per unit for 2009 and 2008 have been recast to conform to the current presentation. However, 2007 and 2006 total units operated, occupancy rates and average monthly revenue per unit have not been recast as it was not practical to do so. As a result, the 2007 and 2006 total units operated, occupancy rates and average monthly revenue per unit do not reflect the new average unit methodology adopted in 2010 and are not comparable to 2010, 2009 and 2008.
- (4) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information should be read in conjunction with our "Selected Financial Data" and our consolidated financial statements and related notes, included elsewhere in this Annual Report on Form 10-K. In addition to historical information, this discussion and analysis may contain forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Please see additional risks and uncertainties described in "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" for more information. Factors that could cause such differences include those described in "Risk Factors" which appears elsewhere in this Annual Report on Form 10-K.

Executive Overview

During 2010, we continued to make progress in implementing our long-term growth strategy, integrating previous acquisitions, and building a platform for future growth. Our primary long-term growth objectives are to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income primarily through a combination of: (i) organic growth in our core business, including expense control and the realization of economies of scale; (ii) continued expansion of our ancillary services programs (including therapy, home health and hospice services); (iii) expansion, redevelopment and repositioning of our existing communities; and (iv) acquisitions of additional operating companies and communities.

Our operating results for the year ended December 31, 2010 were favorably impacted by an increase in our total revenues, primarily driven by an increase in average monthly revenue per unit, including an increase in our ancillary services revenue, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. Although we have made significant progress in many areas of our business, the difficult operating environment has continued to result in occupancy rates that are lower than historical levels and diminished growth in the rates we charge our residents.

During 2010, we continued our efforts to strengthen our financial position. For example, in early 2010, we entered into a new revolving credit facility with General Electric Capital Corporation, as administrative agent. The facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which we exercised during the second quarter), and was scheduled to mature on June 30, 2013. On January 31, 2011, we entered into an amended and restated credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated the previous credit agreement. The amended credit agreement increased the commitment under the credit facility to \$200.0 million and extended the maturity date to January 31, 2016. Effective February 23, 2011, the commitment under the amended credit agreement was further increased to \$230.0 million. Furthermore, we have refinanced, repaid or exercised extension options on a number of mortgage loans and, factoring in contractual extension options, have no mortgage debt maturities until 2012 (other than periodic, scheduled principal payments). As a result of our recent operating performance and the steps we have recently taken to improve our liquidity position, we ended the year with \$81.8 million of unrestricted cash and cash equivalents on our consolidated balance sheet and \$113.0 million of undrawn capacity on our revolving credit facility.

The table below presents a summary of our operating results and certain other financial metrics for the years ended December 31, 2010 and 2009 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Years Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	Percent
	Total revenue	\$ 2,213.3	\$ 2,023.1	\$ 190.2
Net loss ⁽¹⁾	\$ (48.9)	\$ (66.3)	\$ (17.4)	(26.2)%
Adjusted EBITDA	\$ 408.5	\$ 348.6	\$ 59.9	17.2%
Cash From Facility Operations	\$ 240.7	\$ 196.8	\$ 43.9	22.3%
Facility Operating Income	\$ 744.3	\$ 690.1	\$ 54.2	7.9%

(1) Net loss for 2010 and 2009 includes non-cash impairment charges of \$13.1 million and \$10.1 million, respectively.

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

Our revenues for the year ended December 31, 2010 increased to \$2.2 billion, an increase of \$190.2 million, or 9.4%, over our revenues for the year ended December 31, 2009. The increase in revenues in the current year was primarily a result of an increase in the average monthly revenue per unit compared to the prior year, including growing revenues from our ancillary services programs, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. Our weighted average occupancy rate for our owned/leased communities for the year ended December 31, 2010 and 2009 was 87.1% and 86.5%, respectively. Beginning in 2010, occupancy rates and average monthly revenue per unit are being reported using an average unit methodology based on a consistent treatment of units across all product lines, as compared to the historical method where occupancy was reported based upon unit calculations that varied by product line. Occupancy rates and average monthly revenue per unit for 2008 and 2009 have been recast to conform to the current presentation.

Table of Contents

During the year ended December 31, 2010, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 17.2%, 22.3% and 7.9%, respectively, when compared to the year ended December 31, 2009.

During 2010, we engaged in a limited amount of acquisition activity. We acquired the fee simple interest in four communities we previously operated under an operating lease. The aggregate purchase price for the interest was \$22.5 million. Additionally, we purchased and entered into a sale-leaseback arrangement with respect to one of our communities and acquired seven home health agencies during the year.

During 2010, we continued to expand our ancillary services offerings. As of December 31, 2010, we offered therapy services to approximately 37,800 of our units and home health services to approximately 26,500 of our units. We continue to see positive results from the maturation of previously-opened therapy and home health clinics. We also expect to continue to expand our ancillary services programs to additional units and to open or acquire additional home health agencies.

We believe that the deteriorating housing market, credit crisis and general economic uncertainty have caused some potential customers (or their adult children) to delay or reconsider moving into our communities, resulting in a decrease in occupancy rates and occupancy levels when compared to historical levels. We remain cautious about the economy and the adverse credit and financial markets and their effect on our customers and our business. In addition, we continue to experience volatility in the entrance fee portion of our business. The timing of entrance fee sales is subject to a number of different factors (including the ability of potential customers to sell their existing homes) and is also inherently subject to variability (positively or negatively) when measured over the short-term. These factors also impact our potential independent living customers to a significant extent. We expect occupancy and entrance fee sales to normalize over the longer term.

Consolidated Results of Operations

Year Ended December 31, 2010 and 2009

The following table sets forth, for the periods indicated, statement of operations items and the amount and percentage of change 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 consolidated financial statements and the notes thereto, which are included herein. Our results reflect the inclusion of acquisitions that occurred during the respective reporting periods.

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

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

	Years Ended December 31,		Increase (Decrease)	
	2010	2009	Amount	Percent
<i>Statement of Operations Data:</i>				
Total revenue				
Resident fees				
Retirement Centers	\$ 530,161	\$ 496,744	\$ 33,417	6.7%
Assisted Living	1,023,785	925,917	97,868	10.6%
CCRCs	653,727	593,688	60,039	10.1%
Total resident fees	2,207,673	2,016,349	191,324	9.5%
Management fees	5,591	6,719	(1,128)	(16.8%)
Total revenue	2,213,264	2,023,068	190,196	9.4%
Expense				
Facility operating expense				
Retirement Centers	311,345	283,136	28,209	10.0%
Assisted Living	661,859	600,948	60,911	10.1%
CCRCs	464,726	418,193	46,533	11.1%
Total facility operating expense	1,437,930	1,302,277	135,653	10.4%
General and administrative expense	131,709	134,864	(3,155)	(2.3%)
Facility lease expense	270,905	272,096	(1,191)	(0.4%)

Table of Contents

Depreciation and amortization	292,341	271,935	20,406	7.5%
(Gain) loss on sale of communities, net	(3,298)	2,043	(5,341)	(261.4%)
Goodwill and asset impairment	13,075	10,073	3,002	29.8%
Facility lease termination expense	4,608	—	4,608	100.0%
Total operating expense	<u>2,147,270</u>	<u>1,993,288</u>	<u>153,982</u>	<u>7.7%</u>
Income from operations	65,994	29,780	36,214	121.6%
Interest income	2,238	2,354	(116)	(4.9%)
Interest expense:				
Debt	(132,641)	(128,869)	3,772	2.9%
Amortization of deferred financing costs and debt discount	(8,963)	(9,505)	(542)	(5.7%)
Change in fair value of derivatives and amortization	(4,118)	3,765	(7,883)	(209.4%)
Loss on extinguishment of debt, net	(1,557)	(1,292)	265	20.5%
Equity in earnings of unconsolidated ventures	168	440	(272)	(61.8%)
Other non-operating (expense) income	(1,454)	4,146	(5,600)	(135.1%)
Loss before income taxes	(80,333)	(99,181)	(18,848)	(19.0%)
Benefit for income taxes	31,432	32,926	(1,494)	(4.5%)
Net loss	<u>\$ (48,901)</u>	<u>\$ (66,255)</u>	<u>\$ (17,354)</u>	<u>(26.2%)</u>
<i>Selected Operating and Other Data:</i>				
Total number of communities (at end of period)	559	565	(6)	(1.1%)
Total units operated ⁽¹⁾	50,870	49,536	1,334	2.7%
Owned/leased communities units	47,083	45,174	1,909	4.2%
Owned/leased communities occupancy rate (weighted average)	87.1%	86.5%	0.6%	0.7%
Average monthly revenue per unit ⁽²⁾	\$ 4,439	\$ 4,253	\$ 186	4.4%
<i>Selected Segment Operating and Other Data</i>				
Retirement Centers				
Number of communities (period end)	78	80	(2)	(2.5%)
Total units ⁽¹⁾	14,700	14,137	563	4.0%
Occupancy rate (weighted average)	87.2%	87.2%	—	—
Average monthly revenue per unit ⁽²⁾	\$ 3,445	\$ 3,358	\$ 87	2.6%
Assisted Living				
Number of communities (period end)	427	430	(3)	(0.7%)
Total units ⁽¹⁾	21,109	20,201	908	4.5%
Occupancy rate (weighted average)	88.4%	86.8%	1.6%	1.8%
Average monthly revenue per unit ⁽²⁾	\$ 4,573	\$ 4,401	\$ 172	3.9%
CCRCs				
Number of communities (period end)	35	36	(1)	(2.8%)
Total units ⁽¹⁾	11,274	10,836	438	4.0%
Occupancy rate (weighted average)	84.3%	85.1%	(0.8%)	(0.9%)
Average monthly revenue per unit ⁽²⁾	\$ 5,517	\$ 5,168	\$ 349	6.8%
Management Services				
Number of communities (period end)	19	19	—	—
Total units ⁽¹⁾	3,787	4,362	(575)	(13.2%)
Occupancy rate (weighted average)	83.8%	84.2%	(0.4%)	(0.5%)

Selected Entrance Fee Data:

	2010				
	Q1	Q2	Q3	Q4	YTD
Non-refundable entrance fees sales	\$ 9,550	\$ 8,354	\$ 9,812	\$ 9,770	\$ 37,486
Refundable entrance fees sales ⁽³⁾	8,442	6,619	12,242	9,117	36,420
Total entrance fee receipts ⁽⁴⁾	17,992	14,973	22,054	18,887	73,906
Refunds	(5,762)	(5,360)	(4,984)	(4,954)	(21,060)
Net entrance fees	\$ 12,230	\$ 9,613	\$ 17,070	\$ 13,933	\$ 52,846

	2009				
	Q1	Q2	Q3	Q4	YTD
Non-refundable entrance fees sales	\$ 4,872	\$ 5,718	\$ 12,635	\$ 15,264	\$ 38,489
Refundable entrance fees sales ⁽³⁾	3,638	4,098	9,296	13,354	30,386
Total entrance fee receipts ⁽⁴⁾	8,510	9,816	21,931	28,618	68,875
Refunds	(5,836)	(6,357)	(4,649)	(6,074)	(22,916)
Net entrance fees	\$ 2,674	\$ 3,459	\$ 17,282	\$ 22,544	\$ 45,959

- (1) Total units operated represent the average units operated during the period, excluding equity homes.
- (2) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.
- (3) Refundable entrance fee sales for the years ended December 31, 2010 and 2009 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 \$0.1 million, \$0.2 million, \$6.5 million and \$3.8 million in the first, second, third and fourth quarters of 2010, respectively, and \$0.6 million, \$0.1 million and \$0.4 million in the first, third and fourth quarters of 2009, respectively. My Choice amounts for the second quarter of 2009 were not material.
- (4) Includes \$18.5 million and \$25.7 million of first generation entrance fee receipts (which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC) during the year ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, our total operations included 559 communities with a capacity to serve 51,313 units.

Resident Fees

The increase in resident fees occurred across all segments. Resident fees increased over the prior-year principally due to an increase in average monthly revenue per unit during the current year, including an increase in our ancillary services revenue as we continue to roll out therapy and home health services to many of our communities, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. During the current year, revenues grew 3.2% at the 510 communities we operated during both periods with a 2.9% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy increased 0.3% in these communities period over period.

Retirement Centers revenue increased \$33.4 million, or 6.7%, primarily due to an increase in the average monthly revenue per unit at the communities we operated in both years. Occupancy at these communities remained consistent year over year.

Assisted Living revenue increased \$97.9 million, or 10.6%, primarily due to the inclusion of acquisitions that occurred close to the end of the prior period. The revenue increase was also due to increases in occupancy at the communities we operated during both periods, as well as increases in the average monthly revenue per unit, including an increase in ancillary services revenue, in these communities.

Table of Contents

CCRCs revenue increased \$60.0 million, or 10.1%, primarily due to the inclusion of expansions that opened late in the prior period and an increase in the average monthly revenue per unit, including an increase in our ancillary services revenue, at the communities we operated during both periods, partially offset by a decrease in occupancy at these same communities period over period.

Management Fees

Management fees decreased year over year as four management agreements were terminated late in the prior year. The decrease was partially offset by the commencement of a new management agreement in mid-2009. Three of the terminated management agreements were attributed to us acquiring the remaining interest in the communities that we previously managed.

Facility Operating Expense

Facility operating expense increased over the prior-year primarily due to the inclusion of expenses from recent acquisitions and expansions, an increase in salaries and wages, and additional current year expense incurred in connection with the continued expansion of our ancillary services programs during 2009 and 2010. These increases were partially offset by a decrease in insurance expense related to changes in estimates and reduced workers compensation expenses.

Retirement Centers operating expenses increased \$28.2 million, or 10.0%, primarily due to the inclusion of expenses from acquisitions that occurred late in the fourth quarter of 2009 and an increase in expenses incurred in connection with the continued expansion of our ancillary services programs. Facility operating expenses were also negatively impacted by increased salaries and wages due to wage rate increases, an increase in hours worked year over year and an increase in the amount of direct resident lease origination costs recognized. Additional expenses were incurred due to lighting retrofit costs related to an initiative to use more energy efficient lighting in our communities. These increases were partially offset by a decrease in insurance expense related to a change in estimates and reduced workers compensation expenses.

Assisted Living operating expenses increased \$60.9 million, or 10.1%, primarily due to the inclusion of expenses from acquisitions that occurred late in the fourth quarter of 2009, an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, and increased salaries and wages due to wage rate increases and an increase in hours worked year over year. These increases were partially offset by reduced workers compensation expenses and a decrease in bad debt expense.

CCRCs operating expenses increased \$46.5 million, or 11.1%, primarily due to the inclusion of expenses from expansions that occurred late in the fourth quarter of 2009, increased salaries and wages due to wage rate increases and an increase in hours worked year over year, as well as increases in lighting retrofit costs related to an initiative to use more energy efficient lighting in our communities. These increases were partially offset by a decrease in insurance expense related to a change in estimates, reduced workers compensation expenses and a decrease in bad debt expense.

General and Administrative Expense

General and administrative expense decreased \$3.2 million, or 2.3%, primarily as a result of a decrease in non-cash stock-based compensation expense in connection with restricted stock grants and transaction-related costs incurred in the prior year. These decreases were partially offset by increased travel and employee benefit expenses. General and administrative expense as a percentage of total revenue, including revenue generated by the communities we manage and excluding non-cash compensation and transaction-related costs, was 4.7% for the years ended December 31, 2010 and 2009, calculated as follows (dollars in thousands):

	Year Ended December 31,			
	2010		2009	
Resident fee revenues	\$ 2,207,673	94.1%	\$ 2,016,349	92.7%
Resident fee revenues under management	139,478	5.9%	157,618	7.3%
Total	<u>\$ 2,347,151</u>	<u>100%</u>	<u>\$ 2,173,967</u>	<u>100%</u>

Table of Contents

General and administrative expenses (excluding non-cash compensation and transaction-related costs)	\$ 110,950	4.7%	\$ 101,676	4.7%
Non-cash compensation expense	20,759	0.9%	26,935	1.2%
Transaction-related costs	—	0.0%	6,253	0.3%
General and administrative expenses (including non-cash compensation and transaction-related costs)	<u>\$ 131,709</u>	<u>5.6%</u>	<u>\$ 134,864</u>	<u>6.2%</u>

Facility Lease Expense

Facility lease expense remained relatively constant period over period.

Depreciation and Amortization

Depreciation and amortization expense increased by \$20.4 million, or 7.5%, primarily due to the inclusion of acquisitions and expansions that occurred or opened later in the prior year.

Goodwill and Asset Impairment

During 2010 and 2009, we recognized \$13.1 million and \$10.1 million, respectively, of impairment charges related to asset impairments for property, plant and equipment and leasehold intangibles for certain communities within the Assisted Living and Retirement Centers segments. In both years, the non-cash impairment charges were primarily due to lower than expected performance of the underlying communities.

Interest Income

Interest income remained relatively constant period over period.

Interest Expense

Interest expense increased \$11.1 million, or 8.3%, primarily due to additional interest expense recorded from the change in the fair value of interest rate swaps and caps due to changes in the LIBOR yield curve period over period. Additionally, interest expense on our mortgage debt increased due to the inclusion of acquisitions and expansions that occurred or opened since late 2009, partially offset by a decrease in interest expense related to our line of credit.

Income Taxes

The reduction in the income tax benefit over the prior year is due to an increase in the effective tax rate from 33.2% in 2009 to 39.1% in 2010. This increase is primarily due to the impact of the nondeductible stock-based compensation recorded under ASC 718-10 which was treated as non-deductible expense in 2009.

Year Ended December 31, 2009 and 2008

The following table sets forth, for the periods indicated, statement of operations items and the amount and percentage of change 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 consolidated financial statements and the notes thereto, which are included herein. Our results reflect the inclusion of acquisitions that occurred during the respective reporting periods.

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

	Years Ended December 31,		Increase (Decrease)	
	2009	2008	Amount	Percent
<i>Statement of Operations Data:</i>				
Total revenue				
Resident fees				
Retirement Centers	\$ 496,744	\$ 497,453	\$ (709)	(0.1%)
Assisted Living	925,917	890,075	35,842	4.0%
CCRCs	593,688	533,532	60,156	11.3%
Total resident fees	2,016,349	1,921,060	95,289	5.0%
Management fees	6,719	6,994	(275)	(3.9%)
Total revenue	2,023,068	1,928,054	95,014	4.9%
Expense				
Facility operating expense ⁽¹⁾				
Retirement Centers	283,136	286,035	(2,899)	(1.0%)
Assisted Living	600,948	590,644	10,304	1.7%
CCRCs	418,193	384,902	33,291	8.6%
Total facility operating expense	1,302,277	1,261,581	40,696	3.2%
General and administrative expense	134,864	140,919	(6,055)	(4.3%)
Facility lease expense	272,096	269,469	2,627	1.0%
Depreciation and amortization	271,935	276,202	(4,267)	(1.5%)
Loss on sale of communities, net	2,043	—	2,043	100.0%
Goodwill and asset impairment	10,073	220,026	(209,953)	(95.4%)
Total operating expense	1,993,288	2,168,197	(174,909)	(8.1%)
Income (loss) from operations	29,780	(240,143)	269,923	112.4%
Interest income	2,354	7,618	(5,264)	(69.1%)
Interest expense:				
Debt	(128,869)	(147,389)	(18,520)	(12.6%)
Amortization of deferred financing costs and debt discount	(9,505)	(9,707)	(202)	(2.1%)
Change in fair value of derivatives and amortization	3,765	(68,146)	71,911	105.5%
Loss on extinguishment of debt, net	(1,292)	(3,052)	(1,760)	(57.7%)
Equity in earnings (loss) of unconsolidated ventures	440	(861)	1,301	151.1%
Other non-operating income	4,146	1,708	2,438	142.7%
Loss before income taxes	(99,181)	(459,972)	(360,791)	(78.4%)
Benefit for income taxes	32,926	86,731	(53,805)	(62.0%)
Net loss	\$ (66,255)	\$ (373,241)	\$ (306,986)	(82.2%)
<i>Selected Operating and Other Data:</i>				
Total number of communities (at end of period)	565	548	17	3.1%
Total units operated ⁽²⁾	49,536	49,165	371	0.8%
Owned/leased communities units	45,174	44,817	357	0.8%
Owned/leased communities occupancy rate (weighted average)	86.5%	87.6%	(1.1%)	(1.3%)
Average monthly revenue per unit ⁽³⁾	\$ 4,253	\$ 4,031	222	5.5%
<i>Selected Segment Operating and Other Data</i>				
Retirement Centers				
Number of communities (period end)	80	77	3	3.9%
Total units ⁽²⁾	14,137	14,459	(322)	(2.2%)
Occupancy rate (weighted average)	87.2%	88.8%	(1.6%)	(1.8%)
Average monthly revenue per unit ⁽³⁾	\$ 3,358	\$ 3,228	130	4.0%
Assisted Living				
Number of communities (period end)	430	417	13	3.1%
Total units ⁽²⁾	20,201	20,239	(38)	(0.2%)
Occupancy rate (weighted average)	86.8%	86.6%	0.2%	0.2%
Average monthly revenue per unit ⁽³⁾	\$ 4,401	\$ 4,231	170	4.0%

CCRCs					
Number of communities (period end)		36	32	4	12.5%
Total units ⁽²⁾		10,836	10,119	717	7.1%
Occupancy rate (weighted average)		85.1%	87.8%	(2.7%)	(3.1%)
Average monthly revenue per unit ⁽³⁾	\$	5,168	\$ 4,799	369	7.7%
Management Services					
Number of communities (period end)		19	22	(3)	(13.6%)
Total units ⁽²⁾		4,362	4,348	14	0.3%
Occupancy rate (weighted average)		84.2%	76.6%	7.6%	9.9%

Selected Entrance Fee Data:

	2009				
	Q1	Q2	Q3	Q4	YTD
Non-refundable entrance fees sales	\$ 4,872	\$ 5,718	\$ 12,635	\$ 15,264	\$ 38,489
Refundable entrance fees sales ⁽⁴⁾	3,638	4,098	9,296	13,354	30,386
Total entrance fee receipts ⁽⁵⁾	8,510	9,816	21,931	28,618	68,875
Refunds	(5,836)	(6,357)	(4,649)	(6,074)	(22,916)
Net entrance fees	\$ 2,674	\$ 3,459	\$ 17,282	\$ 22,544	\$ 45,959
2008					
	Q1	Q2	Q3	Q4	YTD
Non-refundable entrance fees sales	\$ 2,780	\$ 5,177	\$ 7,253	\$ 7,391	\$ 22,601
Refundable entrance fees sales ⁽⁴⁾	3,492	7,420	4,273	4,686	19,871
Total entrance fee receipts	6,272	12,597	11,526	12,077	42,472
Refunds	(3,632)	(4,843)	(5,856)	(4,819)	(19,150)
Net entrance fees	\$ 2,640	\$ 7,754	\$ 5,670	\$ 7,258	\$ 23,322

- (1) Segment facility operating expense for the year ended December 31, 2008 includes hurricane and named tropical storms expense totaling \$4.8 million consisting of \$1.3 million for Retirement Centers, \$2.0 million for Assisted Living and \$1.5 million for CCRCs.
- (2) Total units operated represent the average units operated during the period, excluding equity homes.
- (3) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.
- (4) Refundable entrance fee sales for the years ended December 31, 2009 and 2008 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 \$0.6 million, \$0.1 million and \$0.4 million in the first, third and fourth quarters of 2009, respectively, and \$0.4 million, \$0.8 million, \$0.6 million and \$0.5 million in the first, second, third and fourth quarters of 2008, respectively. My Choice amounts for the second quarter of 2009 were not material.
- (5) Includes \$25.7 million of first generation entrance fee receipts (which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC) during the year ended December 31, 2009.

As of December 31, 2009, our total operations included 565 communities with a capacity to serve 51,021 units.

Resident Fees

Total resident fees increased over the prior-year primarily due to an increase in average monthly revenue per unit during 2009 which includes an increase in our ancillary services revenue as we continued to roll out therapy and home health services to many of our communities. This increase was partially offset by a decrease in occupancy in the Retirement Centers and CCRCs segments. During 2009, same-community revenues grew 4.1% at the 514 properties we operated in both years with a 4.9% increase in the average monthly revenue per unit and a 0.7% decrease in occupancy.

Retirement Centers revenue decreased slightly, primarily due to a decrease in occupancy at the communities we operated during both years, partially offset by an increase in the average monthly revenue per unit at those same communities year over year.

Assisted Living revenue increased \$35.8 million, or 4.0%, primarily due to an increase in the average monthly revenue per unit at the communities we operated during both years as well as an increase in revenues related to the expansion of our ancillary service programs.

CCRCs revenue increased \$60.2 million, or 11.3%, primarily due to an increase in the average monthly revenue per unit at the communities we operated during both years as well as an increase in revenues related to increased capacity in 2009 and the expansion of our ancillary services. This increase was partially offset by a decrease in occupancy at our same-store communities year over year.

Management Fees

Management fees decreased year over year as one management agreement terminated early in 2009, which was partially offset by the acquisition of a new management agreement in mid-2009.

Facility Operating Expense

Facility operating expense increased over the prior-year primarily due to an increase in salaries and wages, increased insurance expense, higher deferred community fee expense recognition, and additional expense incurred in connection with the continued expansion of our ancillary services programs during 2009. These increases were partially offset by significant cost control measures that were implemented in recent periods. Facility operating expense during the year ended December 31, 2008 was negatively impacted by hurricane and named tropical storms expense.

Retirement Centers operating expenses decreased \$2.9 million, or 1.0%, primarily due to cost control measures implemented in recent periods, including reductions in overtime hours worked and reduced advertising. These decreases were offset by additional expense incurred in connection with the continued expansion of our ancillary services programs, higher deferred community fee expense recognition and an increase in insurance expense in 2009. Also, facility operating expense during the year ended December 31, 2008 was negatively impacted by hurricane and named tropical storms expense.

Assisted Living operating expenses increased \$10.3 million, or 1.7%, due to an increase in expense incurred in connection with the continued rollout of our ancillary services program, increased occupancy in 2009, an increase in salaries and wages related to normal salary increases, increased employee hours worked, and reduced open positions, higher deferred community fee expense recognition and increased insurance costs. These increases were partially offset by cost control measures implemented in recent periods, including reductions in overtime hours worked and public relations and travel expenses. Also, facility operating expense during the year ended December 31, 2008 was negatively impacted by hurricane and named tropical storms expense.

CCRCs operating expenses increased \$33.3 million, or 8.6%, primarily due to an increase in expense incurred in connection with the continued expansion of our ancillary services programs, increased salaries and wages due to filling vacant positions and wage rate increases, higher deferred community fee expense recognition and an increase in insurance costs. These increases were partially offset by significant cost control measures that were implemented in recent periods. Also, facility operating expense during the year ended December 31, 2008 was negatively impacted by hurricane and named tropical storms expense.

General and Administrative Expense

General and administrative expense decreased \$6.1 million, or 4.3%, primarily as a result of a decrease in non-controllable expenses related to the \$8.0 million reserve established for certain litigation during the year ended December 31, 2008, as well as a decrease in non-cash stock-based compensation expense in connection with restricted stock grants and cost control measures implemented in recent periods. These decreases were partially offset by increased bonus expense and transaction-related costs in 2009. General and administrative expense as a percentage of total revenue, including revenue generated by the communities we manage and excluding non-cash compensation, integration and transaction-related costs, was 4.7% and 4.5% for the years ended December 31, 2009 and 2008, respectively, calculated as follows (dollars in thousands):

	Year Ended December 31,			
	2009		2008	
Resident fee revenues	\$ 2,016,349	92.7%	\$ 1,921,060	92.6%
Resident fee revenues under management	157,618	7.3%	152,970	7.4%
Total	<u>\$ 2,173,967</u>	<u>100%</u>	<u>\$ 2,074,030</u>	<u>100.0%</u>
General and administrative expenses (excluding non-cash compensation, integration and transaction-related costs)	\$ 101,676	4.7%	\$ 92,473	4.5%
Non-cash compensation expense	26,935	1.2%	28,937	1.4%
Integration and transaction-related costs	6,253	0.3%	19,509	0.9%
General and administrative expenses (including non-cash compensation, integration and transaction-related costs)	<u>\$ 134,864</u>	<u>6.2%</u>	<u>\$ 140,919</u>	<u>6.8%</u>

Facility Lease Expense

Facility lease expense increased by \$2.6 million, or 1.0%, primarily due to the impact of lease escalators.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$4.3 million, or 1.5%, primarily as a result of resident in-place lease intangibles becoming fully amortized during late 2008.

Goodwill and Asset Impairment

During 2009, we recognized \$10.1 million of impairment charges related to asset impairments for property, plant and equipment and leasehold intangibles for certain communities within the Assisted Living segment. The non-cash impairment charges are primarily due to lower than expected performance of the underlying communities. During 2008, we recognized \$220.0 million of impairment charges mainly related to the CCRCs operating segment. The non-cash charges consisted of \$215.0 million of goodwill impairment related to the CCRCs segment and \$5.0 million of asset impairment for property, plant and equipment and leasehold intangibles for certain communities within the Assisted Living segment. The impairment charge was primarily driven by adverse equity market conditions intensifying in the fourth quarter of 2008 that caused a decrease in current market multiples and our stock price at December 31, 2008 compared with our stock price at September 30, 2008.

Interest Income

Interest income decreased \$5.3 million, or 69.1%, primarily due to the recognition of interest income upon collection of a long-term note receivable, which interest income had been deferred as the interest was accumulating unpaid, during the year ended December 31, 2008.

Interest Expense

Interest expense decreased \$90.6 million, or 40.2%, primarily due to the change in fair value of our interest rate swaps and caps. During the year ended December 31, 2009, we recognized approximately \$3.8 million of interest income on our interest rate swaps and caps due to favorable changes in the LIBOR yield curve which resulted in a change in the fair value of the swaps and caps, as compared to approximately \$68.1 million of interest expense on our interest rate swaps and caps for the year ended December 31, 2008. Interest expense on our mortgage debt and credit facility also decreased due to a decline in market interest rates period over period as well as the payoff of the credit facility during 2009.

Income Taxes

The reduction in the income tax benefit over the same prior year period is due to an increase in the effective tax rate from 18.9% in 2008 to 33.2% in 2009. This increase is primarily due to the impact of the impairment charge taken for financial statement purposes in 2008, which was not deductible for tax purposes. The rate was also impacted by our stock based compensation tax deduction as compared to the financial expense for 2009 and by an increase in the nondeductible officer's compensation recorded in the year.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses. We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate, or different estimates that could have been selected, could have a material impact on our consolidated results of operations or financial condition. We have identified the following critical accounting policies that affect significant estimates and judgments.

Revenue Recognition and Assumptions at Entrance Fee Communities

Our 11 entrance fee communities provide housing and healthcare services through entrance fee agreements with residents. Under certain of these agreements, residents pay an entrance fee upon entering into the contract and are contractually guaranteed certain limited lifecare benefits in the form of healthcare discounts. The recognition of entrance fee income requires the use of various actuarial estimates. We recognize this revenue by recording the non-refundable portion of the residents' entrance fees as deferred entrance fee income and amortizing it into revenue using the straight-line method over the estimated remaining life expectancy of each resident or couple. In addition, certain entrance fee agreements entitle the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit contingent upon resale. We estimate the portion of such entrance fees that will be repaid to the resident from other contingently refundable entrance fees received or non-refundable entrance fees received and record that portion as deferred revenue with the remainder classified as refundable entrance fees. The portion recorded as deferred revenue is amortized over the life of the entrance fee building. We periodically assess the reasonableness of these mortality tables and other actuarial assumptions, and measurement of future service obligations.

Obligation to Provide Future Services

Annually, we calculate the present value of the net cost of future services and the use of communities to be provided to current residents of certain of our CCRCs and compare that amount with the balance of non-refundable deferred revenue from entrance fees received. If the present value of the net cost of future services and the use of communities exceeds the related anticipated revenues including non-refundable deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of communities) with a corresponding charge to income.

Self-Insurance Liability Accruals

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Although we maintain general liability and professional liability insurance policies for our owned, leased and managed communities under a master insurance program, our current policy provides for deductibles for each and every

claim (\$250,000 effective January 1, 2009 and \$150,000 effective January 1, 2010). The amount of liquid assets separately available to satisfy these deductible obligations is \$10.9 million as of December 31, 2010 (classified as cash and escrow deposits – restricted in the consolidated balance sheets). As a result, we are effectively self-insured for claims that are less than \$150,000. In addition, we maintain a self-insured workers compensation program (with excess loss coverage generally above \$0.5 million per individual claim on or prior to December 31, 2009 and \$1.0 million effective January 1, 2010) and a self-insured employee medical program (with excess loss coverage above \$0.3 million per individual claim). We are self-insured for amounts below these excess loss coverage amounts. We have formed a wholly-owned “captive” insurance company, Senior Services Insurance Limited (“SSIL”) for the purpose of insuring certain portions of our risk retention under our general and professional liability insurance programs. SSIL issues policies of insurance to and receives premiums from Brookdale Senior Living Inc. that are reimbursed through expense allocation to each operated community and us. SSIL pays the costs for each claim above a deductible up to a per claim limit. Third-party insurers are responsible for claim costs above this limit. These third-party insurers carry an A.M. Best rating of A-/VII or better.

The cost of our employee health and dental benefits, net of employee contributions, is shared by us and our communities based on the respective number of participants working directly either at our corporate headquarters or at the communities. Cash received is used to pay the actual costs of administering the program which include paid claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator.

Outstanding losses and expenses for general liability and professional liability and workers compensation are estimated based on the recommendations of independent actuaries and management’s estimates. Outstanding losses and expenses for our self-insured medical program are estimated based on the recommendation of our third party administrator.

We review the adequacy of our accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third-party administrator estimates, consultants, advice from legal counsel and industry data, and adjust accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

Investment in Unconsolidated Ventures

In accordance with ASC 810, the general partner or managing member of a venture consolidates the venture unless the limited partners or other members have either (1) the substantive ability to dissolve the venture or otherwise remove the general partner or managing member without cause or (2) substantive participating rights in significant decisions of the venture, including authorizing operating and capital decisions of the venture, including budgets, in the ordinary course of business. We have reviewed all ventures that are not VIEs where we are the general partner or managing member and have determined that in all cases the limited partners or other members have substantive participating rights such as those set forth above and, therefore, no ventures are consolidated.

For ventures not consolidated, we apply the equity method of accounting in accordance with ASC Investments – Equity Method and Joint Ventures Topic. Equity method investments are initially recorded at cost and subsequently are adjusted for our share of the venture’s earnings or losses and cash distributions. In accordance with this guidance, the allocation of profit and losses should be analyzed to determine how an increase or decrease in net assets of the venture (determined in conformity with GAAP) will affect cash payments to the investor over the life of the venture and on its liquidation. Because certain venture agreements contain preferences with regard to cash flows from operations, capital events and/or liquidation, we reflect our share of profits and losses by determining the difference between our “claim on the investee’s book value” at the end and the beginning of the period. This claim is calculated as the amount that we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method.

Our reported share of earnings is adjusted for the impact, if any, of basis differences between our carrying value of the equity investment and our share of the venture’s underlying assets. We generally do not have future requirements to contribute additional capital over and above the original capital commitments, and therefore, we

discontinue applying the equity method of accounting when our investment is reduced to zero barring an expectation of an imminent return to profitability. If the venture subsequently reports net income, the equity method of accounting is resumed only after our share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

When the majority equity partner in one of our ventures sells its equity interest to a third party, the venture frequently refinances its senior debt and distributes the net proceeds to the equity partners. All distributions received by us are first recorded as a reduction of our investment. Next, we record a liability for any contractual or implied future financial support to the venture including obligations in our role as a general partner. Any remaining distributions are recorded as the Company's share of earnings and return on investment in unconsolidated ventures in the consolidated statements of operations.

We evaluate realization of our investment in ventures accounted for using the equity method if circumstances indicate that our investment is other than temporarily impaired.

Income Taxes

We account for income taxes under the provisions of ASC 740 *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. As of December 31, 2010 and 2009, we have a valuation allowance against deferred tax assets of approximately \$10.8 million and \$10.7 million, respectively. 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.

Lease Accounting

We determine whether to account for our leases as either operating or capital leases depending on the underlying terms. As of December 31, 2010, we operated 351 communities under long-term leases with operating, capital and financing lease obligations. The determination of this classification is complex and in certain situations requires a significant level of judgment. Our classification criteria is based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements as stated in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Communities under operating leases are accounted for in our statement of operations as lease expenses for actual rent paid plus or minus straight-line adjustments for fixed or estimated minimum lease escalators and amortization of deferred gains. For communities under capital lease and lease financing obligation arrangements, a liability is established on our balance sheet and a corresponding long-term asset is recorded. Lease payments are allocated between principal and interest on the remaining base lease obligations and the lease asset is depreciated over the shorter of its useful life or the term of the lease. In addition, we amortize leasehold improvements purchased during the term of the lease over the shorter of their economic life or the lease term. Sale-leaseback transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options.

One of our leases provides for various additional lease payments based on changes in the interest rates on the debt underlying the lease. All of our leases contain fixed or formula based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease. In addition, we recognize all rent-free or rent holiday periods in operating leases on a straight-line basis over the lease term, including the rent holiday period.

For leases in which the Company is involved with the construction of the building, the Company accounts for the lease during the construction period under the provisions of ASC 840. If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction in progress and the pre-existing asset. Once construction is complete, the Company considers the requirements under ASC 840-40 – *Leases – Sale-Leaseback Transactions*. If the

arrangement does not qualify for sale-leaseback accounting, the Company continues to amortize the financing obligation and depreciate the building over the lease term.

Allowance for Doubtful Accounts

Accounts receivable are reported net of an allowance for doubtful accounts, and represent our estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$14.5 million and \$13.9 million as of December 31, 2010 and 2009, respectively. The adequacy of our allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Recent changes in legislation are not expected to have a material impact on the collectability of our accounts receivable; however, changes in economic conditions could have an impact on the collection of existing receivable balances or future allowance calculations.

Approximately 80.6% and 83.0% of the Company's resident and healthcare revenues for the year ended December 31, 2010 and 2009, respectively, were derived from private pay customers and 19.4% and 17.0% of the Company's resident and healthcare revenues for the year ended December 31, 2010 and 2009, respectively, were derived from services covered by various third-party payor programs, including Medicare and Medicaid. Billings for services under third-party payor programs are recorded net of estimated retroactive adjustments, if any, under reimbursement programs. Revenue related to these billings is recorded on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. We accrue contractual or cost related adjustments from Medicare or Medicaid when assessed (without regard to when the assessment is paid or withheld), even if we have not agreed to or are appealing the assessment. Subsequent positive or negative adjustments to these accrued amounts are recorded in net revenues when known.

Long-Lived Assets, Goodwill and Purchase Accounting

As of December 31, 2010 and 2009, our long-lived assets were comprised primarily of \$3.7 billion and \$3.9 billion, respectively, of property, plant and equipment and leasehold intangibles. In accounting for our long-lived assets, other than goodwill, we apply the provisions of ASC 360 *Property, Plant and Equipment*. In connection with our formation transactions, for financial reporting purposes we recorded the non-controlling stockholders' interest at fair value. Acquisitions are accounted for using the purchase method of accounting and the purchase prices are allocated to acquired assets and liabilities based on their estimated fair values. Goodwill associated with our acquisition of ARC and our formation transactions was allocated to the respective reporting unit and included in our application of the provisions of ASC 350 *Intangibles – Goodwill and Other* ("ASC 350"). We account for goodwill under the provisions of ASC 350. As of December 31, 2010 and 2009, we had \$109.7 million and \$109.8 million of goodwill, respectively.

We test long-lived assets other than goodwill and indefinite-lived intangible assets for recoverability annually during our fourth quarter or whenever changes in circumstances indicate the carrying value may not be recoverable. Recoverability of an asset (group) is estimated by comparing its carrying value to the future net undiscounted cash flows expected to be generated by the asset (group). If this comparison indicates that the carrying value of an asset (group) is not recoverable, we are required to recognize an impairment loss. The impairment loss is measured by the amount by which the carrying amount of the asset (group) exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the carrying amount of those assets is permanently adjusted and depreciated over its remaining useful life. During the years ended December 31, 2010 and 2009, we evaluated long-lived depreciable assets using the same cash flow data used to evaluate goodwill and determined that the undiscounted cash flows exceeded the carrying value of these assets for all except a small number of communities. Estimated fair values were determined and a non-cash asset impairment charge of \$13.1 million and \$10.1 million was taken for the quarters ended December 31, 2010 and 2009, respectively, for five and four communities, respectively, within the Retirement Centers and Assisted Living segment.

Goodwill is not amortized, but is subject to annual or more frequent impairment testing. We test goodwill for impairment annually during our fourth quarter, or whenever indicators exist that our goodwill may not be recoverable. The recoverability of goodwill is required to be assessed using a two-step process. The first step requires a comparison of the estimated fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its estimated fair value, the second step requires a comparison of the implied fair

Table of Contents

value of goodwill (based on a putative purchase price allocation methodology) with its carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Indefinite-lived intangible assets are tested for impairment annually during our fourth quarter or more frequently as required. The impairment test consists of a comparison of the estimated fair value of the indefinite-lived intangible asset with its carrying value. If the carrying amount exceeds its fair value, an impairment loss is recognized for that difference.

In estimating the fair value of long-lived assets (groups) and reporting units for purposes of our goodwill impairment test, we generally use the income approach. The income approach utilizes future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting an unknown future and require significant management judgments and estimates. In arriving at our cash flow projections, we consider our historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. Future events may indicate differences from management's current judgments and estimates, which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact discount rates, differences in the projected occupancy rates and changes in the cost structure of existing communities.

In using the income approach to estimate the fair value of long-lived assets (groups) and reporting units for purposes of our goodwill impairment test, we make certain key assumptions. Those assumptions include future revenues and future facility operating expenses, and future cash flows that we would receive upon a sale of the communities using estimated capitalization rates. We corroborate the capitalization rates we use in these calculations with capitalization rates observable from recent market transactions.

Where required, future cash flows are discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise.

Although we make every reasonable effort to ensure the accuracy of our estimate of the fair value of our reporting units, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss.

Hedging

We periodically enter into certain interest rate swap or cap agreements to effectively convert floating rate debt to a fixed rate basis or to hedge anticipated future financings. Amounts paid or received under these agreements are recognized as an adjustment to interest expense when such amounts are incurred or earned. For effective cash flow hedges, settlement amounts paid or received in connection with settled or unwound interest rate swap agreements are deferred and recorded to accumulated other comprehensive income. For effective fair value hedges, changes in the fair value of the derivative will be offset against the corresponding change in fair value of the hedged asset or liability through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be recognized in earnings. All derivative instruments are recorded at fair value. Derivatives that do not qualify for hedge accounting are recorded at fair value through earnings.

On October 1, 2006, we elected to discontinue hedge accounting prospectively for the previously designated swap instruments. Consequently, the net gain accumulated in other comprehensive income at that date of approximately \$1.3 million related to the previously designated swap instruments is being reclassified to interest expense over the life of the underlying hedged debt. In the future, if the underlying hedged debt is extinguished or refinanced, the remaining unamortized gain or loss in accumulated other comprehensive income will be recognized in net income.

In measuring our derivative instruments at fair value, we have considered nonperformance risk in our valuation. In so doing, we review the netting arrangement and collateral requirements of each instrument and counterparty to determine appropriate reductions of credit exposure. Remaining credit exposure is estimated by reference to market prices for credit default swaps and/or other methods of estimating probabilities of default.

Stock-Based Compensation

We adopted ASC 718 *Compensation – Stock Compensation* in connection with initial grants of restricted stock effective August 2005, which were converted into shares of our restricted stock on September 30, 2005 in connection with our formation transaction. ASC 718 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. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred.

Certain of our employee stock awards vest only upon the achievement of performance targets. ASC 718 requires recognition of compensation cost only when achievement of performance conditions is considered probable. Consequently, our determination of the amount of stock compensation expense requires a significant level of judgment in estimating the probability of achievement of these performance targets. Additionally, we must make estimates regarding employee forfeitures in determining compensation expense. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

Litigation

Litigation is inherently uncertain and the outcome of individual litigation matters is not predictable with assurance. As described in Note 23 to the consolidated financial statements, we are involved in various legal actions and claims incidental to the conduct of our business which are comparable to other companies in the senior living and healthcare industries. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. In other instances, we may not be able to make a reasonable estimate of any liability because of uncertainties related to the outcome and/or the amount or range of losses. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

New Accounting Pronouncements

The information required by this Item is provided in Note 2 of the notes to the consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data”.

Liquidity and Capital Resources

The following is a summary of cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows (dollars in thousands):

	Year Ended December 31,	
	2010	2009
Cash provided by operating activities	\$ 228,244	\$ 237,220
Cash used in investing activities	(136,505)	(351,432)
Cash (used in) provided by financing activities	(76,282)	126,609
Net increase in cash and cash equivalents	15,457	12,397
Cash and cash equivalents at beginning of year	66,370	53,973
Cash and cash equivalents at end of year	\$ 81,827	\$ 66,370

The decrease in cash provided by operating activities was attributable to a decrease in working capital partially offset by improved operating performance.

The decrease in cash used in investing activities was primarily attributable to a decrease in cash paid for acquisitions year over year, a decrease in restricted cash funded as we posted restricted cash in the prior-year in order to reduce our letter of credit needs in connection with the renegotiation of the line of credit as well as the release of restricted cash in the current year in connection with swap terminations and debt refinancings and a reduction of spending on property, plant and equipment and leasehold improvements period over period. Additionally, the prior-year period includes cash received on a sale-leaseback transaction and from the sale of a joint venture interest.

Table of Contents

The change in cash related to financing activities period over period was primarily attributable to proceeds received from the public equity offering in the prior-year, an increase in net repayments of debt period over period and an increase in swap termination payments in the current year, partially offset by increased payments made on the credit facility in the prior-year period and an increase in proceeds from refundable entrance fees.

Our principal sources of liquidity have historically been from:

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

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

Our liquidity requirements have historically arisen from:

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense and supply costs;
- debt service and lease payments;
- acquisition consideration and transaction costs;
- cash collateral postings required 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 previous share repurchase authorization; and
- other corporate initiatives (including integration and branding).

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

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

We are highly leveraged and have significant debt and lease obligations. As of February 28, 2011, we have two principal corporate-level debt obligations: our \$230.0 million revolving credit facility and our secured and unsecured facilities providing for up to \$82.5 million of letters of credit in the aggregate. The remainder of our indebtedness is generally comprised of non-recourse property-level mortgage financings.

At December 31, 2010, we had \$2.2 billion of debt outstanding, excluding capital lease obligations, at a weighted-average interest rate of 4.18%. At December 31, 2010, we had \$371.2 million of capital and financing lease obligations and \$72.0 million of letters of credit had been issued under our letter of credit facilities. No borrowings were outstanding on our revolving loan facility at December 31, 2010. Approximately \$71.7 million of our debt and capital lease obligations are due on or before December 31, 2011. We also have substantial operating lease obligations and capital expenditure requirements. For the year ending December 31, 2011, we

will be required to make approximately \$265.4 million of payments in connection with our existing operating leases.

We had \$81.8 million of cash and cash equivalents at December 31, 2010, excluding cash and escrow deposits-restricted and lease security deposits of \$194.9 million. As of that date, we also had \$113.0 million of undrawn capacity under our revolving credit facility.

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

At December 31, 2010, we had \$278.2 million of negative working capital, which includes the classification of \$237.1 million of refundable entrance fees and \$8.0 million in tenant deposits as current liabilities. Based upon our historical operating experience, we anticipate that only 9.0% to 12.0% of those entrance fee liabilities will actually come due, and be required to be settled in cash, during the next 12 months. We expect that any entrance fee liabilities due within the next 12 months will be fully offset by the proceeds generated by subsequent entrance fee sales. Entrance fee sales, net of refunds paid, provided \$52.8 million of cash for the year ended December 31, 2010. This includes \$18.5 million of first generation entrance fee receipts which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC.

For the year ending December 31, 2011, we anticipate that we will make investments of approximately \$125.0 million to \$135.0 million for capital expenditures, comprised of approximately \$35.0 million to \$40.0 million of net recurring capital expenditures and approximately \$90.0 million to \$95.0 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 (including deferred expenditures in connection with recently acquired communities), integration related expenditures (including the cost of developing information systems), and expenditures supporting the expansion of our ancillary services programs. For the year ended December 31, 2010, we spent approximately \$28.0 million for net recurring capital expenditures, approximately \$50.0 million for expenditures relating to other major projects and corporate initiatives and approximately \$4.0 million (consisting of \$13.1 million for capital expenditures net of \$9.1 million that had been reimbursed as of December 31, 2010) in connection with our expansion and development program.

In addition, during 2011, we plan on increasing our efforts with respect to the expansion, redevelopment and repositioning of our communities through our Program Max initiative. We anticipate making net investments of approximately \$70.0 million to \$100.0 million over the next 12 to 18 months in connection with these projects.

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

Through 2007, we focused on growth primarily through acquisition, spending approximately \$2.2 billion during 2007 and 2006 on acquiring communities and companies, excluding fees, expenses and assumption of debt. Given the market environment during 2008 and the first half of 2009, we focused on integrating previous acquisitions and on the significant organic growth opportunities inherent in our growth strategy and engaged in a reduced level of acquisition activity. We completed two separate portfolio acquisitions during the fourth quarter of 2009 and one portfolio acquisition in the second quarter of 2010. As opportunities arise, we plan to continue to take advantage of the fragmented continuing care, independent living and assisted living sectors by selectively purchasing existing operating companies, asset portfolios, home health agencies and communities. We may also seek to acquire the fee interest in communities that we currently lease or manage.

In the normal course of business, we use a variety of financial instruments to mitigate interest rate risk. We have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis. Pursuant to certain of our hedge agreements, we are required to secure our obligation to the counterparty by posting cash or other collateral if the fair value liability exceeds specified thresholds. In periods of significant volatility in the credit markets, the value of these swaps can change significantly and as a result, the amount of collateral we are required to post can change significantly. We have taken a number of steps to reduce our collateral posting risk. In particular, we terminated a number of interest rate swaps and purchased and assumed a number of interest rate caps, which do not require the posting of cash collateral. Furthermore, we obtained a number of swaps that were secured by underlying mortgaged assets and, hence, did not require cash

collateralization. As of December 31, 2010, we have \$925.9 million in aggregate notional amount of interest rate caps which do not require cash collateralization and a \$150.0 million notional amount swap which does require cash collateralization. All of our variable rate debt, excluding our secured line of credit and capital lease obligations, is currently subject to a cap or swap agreement.

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

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

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

As of December 31, 2010, we are in compliance with the financial covenants of our outstanding debt and lease agreements.

Credit Facilities

As of January 1, 2010, we had an available secured line of credit of \$75.0 million (including a \$25.0 million letter of credit sublimit) and secured and unsecured letter of credit facilities of up to \$78.5 million in the aggregate. The line of credit bore interest at a rate of 6.0% and was scheduled to mature on August 31, 2010. No amounts were borrowed under the secured line of credit during 2010.

2010 Credit Facility

Effective February 23, 2010, we terminated the \$75.0 million revolving credit facility with Bank of America, N.A. and entered into a credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The new facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which we exercised on May 5, 2010), and was scheduled to mature on June 30, 2013.

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

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

Amounts drawn under the facility bore interest at 90-day LIBOR plus an applicable margin, as described below. For purposes of determining the interest rate, in no event would LIBOR be less than 2.0%. The applicable

Table of Contents

margin varied with the percentage of the total commitment drawn, with a 4.5% margin at 35% or lower utilization, a 5.0% margin at utilization greater than 35% but less than or equal to 50%, and a 5.5% margin at greater than 50% utilization. We were also required to pay a quarterly commitment fee of 1.0% per annum on the unused portion of the facility.

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

As of December 31, 2010, we had an available secured line of credit with a \$120.0 million commitment and secured and unsecured letter of credit facilities of up to \$82.5 million in the aggregate. As of December 31, 2010, there were no borrowings under the revolving loan facility and \$72.0 million of letters of credit had been issued under the secured and unsecured letter of credit facilities.

2011 Credit Facility

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

After giving effect to the amended credit facility, as of February 28, 2011, we have two principal corporate-level debt obligations: our \$230.0 million revolving credit facility and our secured and unsecured facilities providing for up to \$82.5 million of letters of credit in the aggregate.

Contractual Commitments

The following table presents a summary of our material indebtedness, including the related interest payments, lease and other contractual commitments, as of December 31, 2010.

	<u>Total</u>	<u>Payments Due by Twelve Months Ending December 31,</u>					<u>Thereafter</u>
		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	
		(dollars in thousands)					
Contractual Obligations:							
Long-term debt obligations ⁽¹⁾	\$ 2,607,505	\$ 142,666	\$ 751,064	\$ 785,537	\$ 187,749	\$ 69,256	\$ 671,233
Capital lease obligations ⁽¹⁾	604,751	54,773	57,178	56,855	56,235	55,638	324,072
Operating lease obligations ⁽²⁾	1,971,949	265,442	262,182	251,747	226,040	216,709	749,829
Refundable entrance fee obligations ⁽³⁾	237,082	24,894	24,894	24,894	24,894	24,894	112,612
Total contractual obligations	<u>\$ 5,421,287</u>	<u>\$ 487,775</u>	<u>\$ 1,095,318</u>	<u>\$ 1,119,033</u>	<u>\$ 494,918</u>	<u>\$ 366,497</u>	<u>\$ 1,857,746</u>
Total commercial construction commitments	<u>\$ 13,246</u>	<u>\$ 13,246</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Includes contractual interest for all fixed-rate obligations and assumes interest on variable rate instruments at the December 31, 2010 rate after giving effect to in-place interest rate swaps.

(2) Reflects future cash payments after giving effect to non-contingent lease escalators and assumes payments on variable rate instruments at the December 31, 2010 rate.

(3) Future refunds of entrance fees are estimated based on historical payment trends. These refund obligations are generally offset by proceeds received from resale of the vacated apartment units. Historically, proceeds from resales of entrance fee units each year generally offset refunds paid and generate excess cash to us.

The foregoing amounts exclude outstanding letters of credit of \$72.0 million as of December 31, 2010.

Company Indebtedness, Long-term Leases and Hedging Agreements

Indebtedness

As of February 28, 2011, we have two principal corporate-level debt obligations: our \$230.0 million revolving credit facility and separate letter of credit facilities of up to \$82.5 million in the aggregate. The remainder of our indebtedness is generally comprised of non-recourse property-level mortgage financings.

As of both December 31, 2010 and 2009, our outstanding property-level secured debt and capital leases were \$2.6 billion.

During 2010, we incurred \$381.2 million of additional property-level debt primarily related to the financing of acquisitions, the expansion of certain communities and the releveraging of certain assets. Approximately \$39.0 million of the new debt was issued at a variable interest rate and the remaining \$342.2 million was issued at a fixed interest rate. Additionally we recorded \$33.6 million of debt related to a capital lease entered into during the year. Refer to the notes to the consolidated financial statements for a detailed discussion of the new debt and related terms.

We have secured our self-insured retention risk under our workers' compensation and general liability and professional liability programs and our lease security deposits with cash aggregating \$18.0 million and \$13.9 million as of December 31, 2010 and 2009, respectively, and letters of credit aggregating \$45.9 million and \$46.5 million as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, we are in compliance with the financial covenants of our outstanding debt, including those covenants measuring facility operating income to gauge debt coverage.

Long-Term Leases

As of December 31, 2010, we have 351 communities operated under long-term leases. The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in leased property revenue or the consumer price index.

Two portfolio leases have or had a floating-rate debt component built into the lease payments. We acquired one of the portfolios on December 30, 2005. Prior to the acquisition, the lease payment was a pass through of debt service, which includes \$100.8 million of floating rate tax-exempt debt that was credit enhanced by Fannie Mae. Our variable rate exposure under this lease is partially hedged through an interest rate cap. The second lease includes \$80.0 million of variable rate mortgages and/or tax exempt debt that is credit enhanced by Freddie Mac.

For the year ended December 31, 2010, our minimum annual cash lease payments for our capital/financing leases and operating leases were \$50.7 million and \$262.8 million, respectively.

As of December 31, 2010, we are in compliance with the financial covenants of our capital and operating leases, including those covenants measuring facility operating income to gauge lease coverage.

Hedging

In the normal course of business, we use a variety of financial instruments to mitigate interest rate risk. We have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis. Pursuant to certain of our hedge agreements, we are required to secure our obligation to the counterparty by posting cash or other collateral if the fair value liability exceeds specified thresholds. In periods of significant volatility in the credit markets, the value of these swaps can change significantly and as a result, the amount of collateral we are required to post can change significantly. We have recently taken a number of steps to reduce our collateral posting risk. In particular, during the year ended December 31, 2010, we terminated a number of interest rate swaps with an aggregate notional amount of \$351.8 million. As of December 31, 2010, we have \$925.9 million in aggregate notional amount of interest rate caps which do not require cash collateralization and a \$150.0 million notional amount swap which does require cash collateralization. All of our variable rate debt, excluding our secured line of credit and capital lease obligations, is currently subject to a cap or swap agreement.

Table of Contents

All derivative instruments are recognized as either assets or liabilities in the consolidated balance sheet at fair value.

The following table summarizes the Company's swap instruments at December 31, 2010 (dollars in thousands):

Current notional balance	\$	150,000
Highest possible notional	\$	150,000
Lowest interest rate		0.87%
Highest interest rate		0.87%
Average fixed rate		0.87%
Earliest maturity date		2013
Latest maturity date		2013
Weighted average original maturity		2.9 years
Estimated liability fair value (included in other liabilities at December 31, 2009)	\$	(16,950)
Estimated asset fair value (included in other assets at December 31, 2010)	\$	281

The following table summarizes the Company's cap instruments at December 31, 2010 (dollars in thousands):

Current notional balance	\$	925,865
Highest possible notional	\$	925,865
Lowest interest cap rate		4.96%
Highest interest cap rate		6.50%
Average fixed cap rate		5.82%
Earliest maturity date		2011
Latest maturity date		2012
Weighted average original maturity		3.2 years
Estimated asset fair value (included in other assets at December 31, 2010)	\$	157
Estimated asset fair value (included in other assets at December 31, 2009)	\$	1,221

Impacts of Inflation

Resident fees from the communities we own or lease and management fees from communities we manage for third parties are our primary sources of revenue. These revenues are affected by the amount of monthly resident fee rates and community occupancy rates. The rates charged are highly dependent on local market conditions and the competitive environment in which our communities operate. Substantially all of our retirement center, assisted living, and CCRC residency agreements allow for adjustments in the monthly fee payable thereunder not less frequently than every 12 or 13 months thereby enabling us to seek increases in monthly fees due to inflation, increased levels of care or other factors. Any pricing increase would be subject to market and competitive conditions and could result in a decrease in occupancy in the communities. We believe, however, that our ability to periodically adjust the monthly fee serves to reduce the adverse effect of inflation. In addition, employee compensation expense is a principal cost element of facility operations and is also dependent upon local market conditions. There can be no assurance that resident fees will increase or that costs will not increase due to inflation or other causes.

At December 31, 2010, approximately \$1.0 billion of our indebtedness bears interest at floating rates. We have mitigated our exposure to floating rates by using interest rate swaps and interest rate caps under our debt/lease arrangements. Inflation, and its impact on floating interest rates, could affect the amount of interest payments due on our line of credit.

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 VIEs 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

Table of Contents

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 of communities (including facility lease termination expense);
- depreciation and amortization (including non-cash impairment charges);
- straight-line rent expense (income);
- amortization of deferred gain;
- amortization of deferred entrance fees;
- non-cash compensation expense; and
- change in future service obligation;

and including:

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

Management's Use of Adjusted EBITDA

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

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

monthly basis. Adjusted EBITDA is also used by research analysts and investors to evaluate the performance of and value companies in our industry.

Limitations of Adjusted EBITDA

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

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

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

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

The table below shows the reconciliation of our net loss to Adjusted EBITDA for the years ended December 31, 2010, 2009 and 2008 (dollars in thousands):

	Years Ended December 31, (1)		
	2010	2009	2008
Net loss	\$ (48,901)	\$ (66,255)	\$ (373,241)
Benefit for income taxes	(31,432)	(32,926)	(86,731)
Other non-operating expense (income)	1,454	(4,146)	(1,708)
Equity in (earnings) loss of unconsolidated ventures	(168)	(440)	861
Loss on extinguishment of debt, net	1,557	1,292	3,052
Interest expense:			
Debt	102,245	99,653	119,853
Capitalized lease obligation	30,396	29,216	27,536
Amortization of deferred financing costs and debt discount	8,963	9,505	9,707
Change in fair value of derivatives and amortization	4,118	(3,765)	68,146
Interest income	(2,238)	(2,354)	(7,618)
Income (loss) from operations	65,994	29,780	(240,143)
Facility lease termination expense	4,608	—	—
(Gain) loss on sale of communities, net	(3,298)	2,043	—
Depreciation and amortization	292,341	271,935	276,202
Goodwill and asset impairment	13,075	10,073	220,026
Straight-line lease expense	10,521	15,851	20,585
Amortization of deferred gain	(4,343)	(4,345)	(4,342)

Table of Contents

Amortization of entrance fees	(24,397)	(21,661)	(22,025)
Non-cash compensation expense	20,759	26,935	28,937
Change in future service obligation	(1,064)	(2,342)	—
Entrance fee receipts ⁽²⁾	73,906	68,875	42,472
First generation entrance fees received ⁽³⁾	(18,548)	(25,673)	—
Entrance fee disbursements	(21,060)	(22,916)	(19,150)
Adjusted EBITDA	\$ 408,494	\$ 348,555	\$ 302,562

- (1) The calculation of Adjusted EBITDA includes transaction-related costs for the year ended December 31, 2009 of \$5.8 million. Integration and hurricane and named tropical storms expense as well as other non-recurring costs were \$24.3 million for the year ended December 31, 2008. The amount for the year ended December 31, 2008 includes the effect of an \$8.0 million reserve established for certain litigation.
- (2) Includes the receipt of refundable and non-refundable entrance fees.
- (3) First generation entrance fees received represents initial entrance fees received from the sale of units at a newly opened entrance fee CCRC.

Cash From Facility Operations

Definition of Cash From Facility Operations

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

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

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

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

In the current year, we revised the definition of Cash From Facility Operations to exclude distributions from unconsolidated ventures from cumulative share of net earnings and include our proportionate share (based on equity ownership percentages) of the Cash From Facility Operations generated by our unconsolidated ventures.

This impact is included in the Cash From Facility Operations for the year ended December 31, 2010. Due to immateriality, prior periods have not been restated.

Management's Use of Cash From Facility Operations

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

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

Limitations of Cash From Facility Operations

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

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

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

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

The table below shows the reconciliation of net cash provided by operating activities to CFFO for the years ended December 31, 2010, 2009 and 2008 (dollars in thousands):

	Years Ended December 31, ⁽¹⁾		
	2010	2009	2008
Net cash provided by operating activities	\$ 228,244	\$ 237,220	\$ 136,767
Changes in operating assets and liabilities	46,674	4,532	25,865
Refundable entrance fees received ⁽²⁾⁽³⁾	36,420	30,386	19,871
First generation entrance fees received ⁽⁴⁾	(18,548)	(25,673)	—
Entrance fee refunds disbursed	(21,060)	(22,916)	(19,150)
Recurring capital expenditures, net	(27,969)	(19,522)	(27,312)
Lease financing debt amortization with fair market value or no purchase options	(8,972)	(7,195)	(6,691)
Facility lease termination expense	4,608	—	—
Reimbursement of operating expenses and other	—	—	794
Distributions from unconsolidated ventures from cumulative share of net earnings	(775)	—	—
Cash From Facility Operations from unconsolidated ventures	2,050	—	—
Cash From Facility Operations	\$ 240,672	\$ 196,832	\$ 130,144

- (1) The calculation of CFFO includes transaction-related costs for the year ended December 31, 2009 of \$5.8 million. Integration and hurricane and named tropical storms expense as well as other non-recurring costs were \$24.3 million for the year ended December 31, 2008. The amount for the year ended December 31, 2008 includes the effect of an \$8.0 million reserve established for certain litigation.
- (2) Entrance fee receipts include promissory notes issued to the Company by the resident in lieu of a portion of the entrance fees due. Notes issued (net of collections) for the years ended December 31, 2010 and 2009 were \$1.7 million and \$9.3 million, respectively. Notes issued (net of collections) for the year ended December 31, 2008 were not material.
- (3) Total entrance fee receipts for the years ended December 31, 2010, 2009 and 2008 were \$73.9 million, \$68.9 million and \$42.5 million, respectively, including \$37.5 million, \$38.5 million and \$22.6 million, respectively, of non-refundable entrance fee receipts included in net cash provided by operating activities.
- (4) First generation entrance fees received represents initial entrance fees received from the sale of units at a newly opened entrance fee CCRC.

Facility Operating Income

Definition of Facility Operating Income

We define Facility Operating Income as follows:

Net income (loss) before:

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

Management's Use of Facility Operating Income

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

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

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

Limitations of Facility Operating Income

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

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

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

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

and is susceptible to varying calculations, the Facility Operating Income measure, as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net loss to Facility Operating Income for the years ended December 31, 2010, 2009 and 2008 (dollars in thousands):

	Years Ended December 31,		
	2010	2009	2008
Net loss	\$ (48,901)	\$ (66,255)	\$ (373,241)
Benefit for income taxes	(31,432)	(32,926)	(86,731)
Other non-operating expense (income)	1,464	(4,146)	(1,708)
Equity in (earnings) loss of unconsolidated ventures	(168)	(440)	861
Loss on extinguishment of debt, net	1,557	2,292	3,052
Interest expense:			
Debt	102,245	99,653	119,853
Capitalized lease obligation	30,396	29,216	27,536
Amortization of deferred financing costs and debt discount	8,963	9,505	9,707
Change in fair value of derivatives and amortization	4,118	(3,765)	68,146
Interest income	(2,238)	(2,354)	(7,618)
Income (loss) from operations	65,994	29,780	(240,143)
Facility lease termination expense	4,608	—	—
(Gain) loss on sale of communities, net	(3,298)	2,043	—
Depreciation and amortization	292,341	271,935	276,202
Goodwill and asset impairment	13,075	10,073	220,026
Facility lease expense	270,905	272,096	269,469
General and administrative (including non-cash stock compensation expense)	131,709	134,864	140,919
Change in future service obligation	(1,064)	(2,342)	—
Amortization of entrance fees	(24,397)	(21,661)	(22,025)
Management fees	(5,591)	(6,719)	(6,994)
Facility Operating Income	\$ 744,282	\$ 690,069	\$ 637,454

Item 7A. 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 December 31, 2010, we had approximately \$1.2 billion of long-term fixed rate debt, \$1.0 billion of long-term variable rate debt and \$371.2 million of capital and financing lease obligations. As of December 31, 2010, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.18%.

We enter into certain interest rate swap agreements with major financial institutions to manage our risk on variable rate debt. Additionally, during 2009 and 2010, we entered into certain cap agreements to effectively manage our risk above certain interest rates. As of December 31, 2010, \$1.3 billion, or 60.7%, of our debt, excluding capital and financing lease obligations, either has fixed rates or variable rates that are subject to swap agreements. The remaining \$864.9 million, or 39.3%, of our debt, excluding capital and financing lease obligations, is subject to cap agreements. A change in interest rates would have impacted our interest rate expense related to all outstanding variable rate debt, excluding capital and financing lease obligations, as follows: a one, five and ten percent change in interest rates would have an impact of \$7.6 million, \$41.2 million and \$56.0 million, respectively.

As noted above, we have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to certain of our hedge agreements, we are required to secure our obligation to the counterparty by posting cash or other collateral if the fair value liability exceeds a specified threshold.

Item 8. Financial Statements and Supplementary Data.

BROOKDALE SENIOR LIVING INC.

INDEX TO FINANCIAL STATEMENTS

	<u>PAGE</u>
Report of Independent Registered Public Accounting Firm	69
Report of Independent Registered Public Accounting Firm	70
Consolidated Balance Sheets as of December 31, 2010 and 2009	71
Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008	72
Consolidated Statements of Equity for the Years Ended December 31, 2010, 2009 and 2008	73
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008	74
Notes to Consolidated Financial Statements	76
Schedule II — Valuation and Qualifying Accounts	104

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Brookdale Senior Living Inc.

We have audited the accompanying consolidated balance sheets of Brookdale Senior Living Inc. (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the accompanying index to the financial statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
28 February, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Brookdale Senior Living Inc.

We have audited Brookdale Senior Living Inc.'s (the "Company") internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009 and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
28 February, 2011

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

	December 31,	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 81,827	\$ 66,370
Cash and escrow deposits – restricted	81,558	55,242
Accounts receivable, net	88,033	80,184
Deferred tax asset	15,529	7,688
Prepaid expenses and other current assets, net	61,162	65,550
Total current assets	<u>328,109</u>	<u>275,034</u>
Property, plant and equipment and leasehold intangibles, net	3,736,842	3,857,774
Cash and escrow deposits – restricted	65,316	95,874
Investment in unconsolidated ventures	20,196	20,512
Goodwill	109,693	109,835
Other intangible assets, net	171,341	198,043
Other assets, net	98,973	92,807
Total assets	<u>\$ 4,530,470</u>	<u>\$ 4,649,879</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 71,676	\$ 166,185
Trade accounts payable	36,302	51,612
Accrued expenses	171,537	169,612
Refundable entrance fees and deferred revenue	318,814	295,041
Tenant security deposits	8,029	13,515
Total current liabilities	<u>606,358</u>	<u>695,965</u>
Long-term debt, less current portion	2,498,620	2,459,341
Deferred entrance fee revenue	69,075	69,306
Deferred liabilities	153,199	148,690
Deferred tax liability	113,956	140,313
Other liabilities	29,265	49,682
Total liabilities	<u>3,470,473</u>	<u>3,563,297</u>
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at December 31, 2010 and 2009; no shares issued and outstanding		
Common stock, \$0.01 par value, 200,000,000 shares authorized at December 31, 2010 and 2009; 125,527,846 and 124,417,940 shares issued and 124,316,545 and 123,206,639 shares outstanding (including 3,539,751 and 3,915,330 unvested restricted shares), respectively	1,243	1,232
Additional paid-in-capital	1,904,144	1,882,377
Treasury stock, at cost; 1,211,301 shares at December 31, 2010 and 2009	(29,187)	(29,187)
Accumulated deficit	(815,876)	(766,975)
Accumulated other comprehensive loss	(327)	(865)
Total stockholders' equity	<u>1,059,997</u>	<u>1,086,582</u>
Total liabilities and stockholders' equity	<u>\$ 4,530,470</u>	<u>\$ 4,649,879</u>

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2010	2009	2008
Revenue			
Resident fees	\$ 2,207,673	\$ 2,016,349	\$ 1,921,060
Management fees	5,591	6,719	6,994
Total revenue	<u>2,213,264</u>	<u>2,023,068</u>	<u>1,928,054</u>
Expense			
Facility operating expense (excluding depreciation and amortization of \$221,257, \$184,780 and \$195,517, respectively)	1,437,930	1,302,277	1,256,781
General and administrative expense (including non-cash stock-based compensation expense of \$20,759, \$26,935 and \$28,937, respectively)	131,709	134,864	140,919
Hurricane and named tropical storms expense	—	—	4,800
Facility lease expense	270,905	272,096	269,469
Depreciation and amortization	292,341	271,935	276,202
(Gain) loss on sale of communities, net	(3,298)	2,043	—
Goodwill and asset impairment	13,075	10,073	220,026
Facility lease termination expense	4,608	—	—
Total operating expense	<u>2,147,270</u>	<u>1,993,288</u>	<u>2,168,197</u>
Income (loss) from operations	65,994	29,780	(240,143)
Interest income	2,238	2,354	7,618
Interest expense:			
Debt	(132,641)	(128,869)	(147,389)
Amortization of deferred financing costs and debt discount	(8,963)	(9,505)	(9,707)
Change in fair value of derivatives and amortization	(4,118)	3,765	(68,146)
Loss on extinguishment of debt, net	(1,557)	(1,292)	(3,052)
Equity in earnings (loss) of unconsolidated ventures	168	440	(861)
Other non-operating (expense) income	(1,454)	4,146	1,708
Loss before income taxes	(80,333)	(99,181)	(459,972)
Benefit for income taxes	31,432	32,926	86,731
Net loss	<u>\$ (48,901)</u>	<u>\$ (66,255)</u>	<u>\$ (373,241)</u>
Basic and diluted net loss per share	<u>\$ (0.41)</u>	<u>\$ (0.60)</u>	<u>\$ (3.67)</u>
Weighted average shares used in computing basic and diluted net loss per share	<u>120,010</u>	<u>111,288</u>	<u>101,667</u>
Dividends declared per share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.75</u>

See accompanying notes to consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2010, 2009 and 2008
(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-In- Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balances at January 1, 2008	104,962	\$ 1,050	\$ 1,752,581	\$ —	\$ (332,692)	\$ (1,401)	\$ 1,419,538
Dividends	—	—	(77,559)	—	—	—	(77,559)
Compensation expense related to restricted stock grants	—	—	28,937	—	—	—	28,937
Net loss	—	—	—	—	(373,241)	—	(373,241)
Reclassification of net gains on derivatives into earnings	—	—	—	—	—	262	262
Amortization of payments from settlement of forward interest rate swaps	—	—	—	—	—	376	376
Purchase of Treasury Stock	—	—	—	(29,187)	—	—	(29,187)
Deconsolidation of an entity pursuant to FIN 46(R)	—	—	(13,287)	—	5,212	—	(8,075)
Other	294	3	179	—	1	(633)	(450)
Balances at December 31, 2008	<u>105,256</u>	<u>1,053</u>	<u>1,690,851</u>	<u>(29,187)</u>	<u>(700,720)</u>	<u>(1,396)</u>	<u>960,601</u>
Compensation expense related to restricted stock grants	—	—	26,935	—	—	—	26,935
Net loss	—	—	—	—	(66,255)	—	(66,255)
Issuance of common stock under Associate Stock Purchase Plan	109	1	1,006	—	—	—	1,007
Restricted stock, net	1,794	18	(18)	—	—	—	—
Reclassification of net gains on derivatives into earnings	—	—	—	—	—	493	493
Amortization of payments from settlement of forward interest rate swaps	—	—	—	—	—	376	376
Issuance of common stock from equity offering, net	16,047	160	163,611	—	—	—	163,771
Other	—	—	(8)	—	—	(338)	(346)
Balances at December 31, 2009	<u>123,206</u>	<u>1,232</u>	<u>1,882,377</u>	<u>(29,187)</u>	<u>(766,975)</u>	<u>(865)</u>	<u>1,086,582</u>
Compensation expense related to restricted stock grants	—	—	20,759	—	—	—	20,759
Net loss	—	—	—	—	(48,901)	—	(48,901)
Issuance of common stock under Associate Stock Purchase Plan	63	1	1,019	—	—	—	1,020
Restricted stock, net	1,048	10	(10)	—	—	—	—
Reclassification of net gains on derivatives into earnings	—	—	—	—	—	505	505
Amortization of payments from settlement of forward interest rate swaps	—	—	—	—	—	376	376
Other	—	—	(1)	—	—	(343)	(344)
Balances at December 31, 2010	<u>124,317</u>	<u>\$ 1,243</u>	<u>\$ 1,904,144</u>	<u>\$ (29,187)</u>	<u>\$ (815,876)</u>	<u>\$ (327)</u>	<u>\$ 1,059,997</u>

See accompanying notes to consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended December 31,		
	2010	2009	2008
Cash Flows from Operating Activities			
Net loss	\$ (48,901)	\$ (66,255)	\$ (373,241)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss on extinguishment of debt	1,557	1,292	3,052
Depreciation and amortization	301,304	281,440	285,909
Goodwill and asset impairment	13,075	10,073	220,026
Gain on sale of assets and unconsolidated ventures	(2,509)	(2,241)	(2,131)
Equity in (earnings) loss of unconsolidated ventures	(168)	(440)	861
Distributions from unconsolidated ventures from cumulative share of net earnings	775	405	3,752
Amortization of deferred gain	(4,343)	(4,345)	(4,342)
Amortization of entrance fees	(24,397)	(21,661)	(22,025)
Proceeds from deferred entrance fee revenue	37,486	38,489	22,601
Deferred income tax benefit	(33,295)	(31,684)	(89,498)
Change in deferred lease liability	10,521	15,851	20,585
Change in fair value of derivatives and amortization	4,118	(3,765)	68,146
Change in future service obligation	(1,064)	(2,342)	—
Non-cash stock-based compensation	20,759	26,935	28,937
Changes in operating assets and liabilities:			
Accounts receivable, net	(7,956)	11,784	(25,150)
Prepaid expenses and other assets, net	(22,050)	(28,426)	(12,664)
Accounts payable and accrued expenses	(11,775)	21,287	15,428
Tenant refundable fees and security deposits	(3,158)	(16,770)	(1,293)
Deferred revenue	(1,735)	7,593	(2,186)
Net cash provided by operating activities	<u>228,244</u>	<u>237,220</u>	<u>136,767</u>
Cash Flows from Investing Activities			
(Increase) decrease in lease security deposits and lease acquisition deposits, net	(2,175)	2,441	3,481
Decrease (increase) in cash and escrow deposits – restricted	4,705	(64,540)	(21,760)
Net proceeds from sale of assets	12,079	14,941	2,935
Distributions received from unconsolidated ventures	97	1,061	3,916
Additions to property, plant and equipment, and leasehold intangibles, net of related payables	(93,681)	(117,453)	(189,028)
Acquisition of assets, net of related payables and cash received	(57,948)	(204,137)	(6,731)
Payment on (issuance of) notes receivable, net	1,079	(508)	39,362
Investment in unconsolidated ventures	(660)	(1,246)	(2,779)
Proceeds from sale leaseback transaction	—	9,166	—
Proceeds from sale of unconsolidated venture	675	8,843	4,165
Other	(676)	—	—
Net cash used in investing activities	<u>(136,505)</u>	<u>(351,432)</u>	<u>(166,439)</u>
Cash Flows from Financing Activities			
Proceeds from debt	414,795	157,039	511,344
Repayment of debt and capital lease obligation	(476,527)	(32,587)	(255,489)
Proceeds from line of credit	60,000	60,446	339,453
Repayment of line of credit	(60,000)	(219,899)	(378,000)
Payment of dividends	—	—	(129,455)
Payment of financing costs, net of related payables	(8,541)	(8,700)	(14,292)
Proceeds from public equity offering, net	—	163,771	—
Cash portion of loss on extinguishment of debt	(179)	—	(1,240)
Other	(763)	(931)	(2,974)

Table of Contents

Refundable entrance fees:			
Proceeds from refundable entrance fees	36,420	30,386	19,871
Refunds of entrance fees	(21,060)	(22,916)	(19,150)
Recouping and payment of swap termination	(20,427)	—	(58,140)
Purchase of treasury stock	—	—	(29,187)
Net cash (used in) provided by financing activities	<u>(76,282)</u>	<u>126,609</u>	<u>(17,259)</u>
Net increase (decrease) in cash and cash equivalents	15,457	12,397	(46,931)
Cash and cash equivalents at beginning of year	66,370	53,973	100,904
Cash and cash equivalents at end of year	<u>\$ 81,827</u>	<u>\$ 66,370</u>	<u>\$ 53,973</u>

See accompanying notes to consolidated financial statements.

**BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Description of Business and Organization

Brookdale Senior Living Inc. ("Brookdale", "BSL" 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").

The Company was formed as a Delaware corporation on June 28, 2005. Under its Certificate of Incorporation, the Company was initially authorized to issue up to 5,000,000 shares of common stock and 5,000,000 shares of preferred stock. On September 30, 2005, the Company's Certificate of Incorporation was amended and restated to authorize up to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). The significant accounting policies are summarized below:

Principles of Consolidation

The consolidated financial statements include BSL and its wholly-owned subsidiaries Brookdale Living Communities, Inc. ("BLC"), Brookdale Senior Living Communities, Inc. (formerly known as Alterra Healthcare Corporation) ("Alterra"), Fortress CCRC Acquisition LLC ("Fortress CCRC") and American Retirement Corporation ("ARC"). In December 2003, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 810 - *Consolidation of Variable Interest Entities* ("ASC 810"). ASC 810 addresses the consolidation by business enterprises of primary beneficiaries in variable interest entities ("VIE") as defined in the guidance. We identify the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. We perform this analysis on an ongoing basis. At December 31, 2010, we did not have any unconsolidated VIEs. A company that holds variable interests in an entity will need to consolidate the entity if its interest in the VIE is such that it will absorb a majority of the VIE's losses and/or receive a majority of expected residual returns, if they occur. As of December 31, 2010 and 2009, the Company had no communities considered VIEs which were consolidated pursuant to ASC 810. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operations, are accounted for by the equity method.

The results of facilities and companies acquired are included in the consolidated financial statements from the effective date of the respective acquisition. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the evaluation of goodwill and asset impairments, the accounting for future service obligations, self-insurance reserves, performance-based compensation, the allowance for doubtful accounts, depreciation and amortization, income taxes and other contingencies. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

Revenue Recognition

Resident Fees

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

Entrance Fees

Certain of the Company's communities have residency agreements which require the resident to pay an upfront fee prior to occupying the community. 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 revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the sale of the unit, or in certain agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. In such instances the refundable portion of the fee is not amortized and included in refundable entrance fees and deferred revenue.

Certain contracts require the refundable portion of the entrance fee plus a percentage of the appreciation of the unit, if any, to be refunded only upon resale of a comparable unit ("contingently refundable"). Upon resale the Company may receive reoccupancy proceeds in the form of additional contingently refundable fees, refundable fees, or non-refundable fees. The Company estimates the amount of reoccupancy proceeds to be received from additional contingently refundable fees or non-refundable fees and records such amount as deferred revenue. The deferred revenue is amortized over the life of the community and was approximately \$52.9 million and \$61.8 million at December 31, 2010 and 2009, respectively. All remaining contingently refundable fees not recorded as deferred revenue and amortized are included in refundable entrance fees and deferred revenue.

All refundable amounts due to residents at any time in the future, including those recorded as deferred revenue, are classified as current liabilities.

The non-refundable portion of entrance fees expected to be earned and recognized in revenue in one year is recorded as a current liability. The balance of the non-refundable portion is recorded as a long-term liability.

Community Fees

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

Management Fees

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

Purchase Accounting

In determining the allocation of the purchase price of companies and communities to net tangible and identified intangible assets acquired and liabilities assumed, the Company makes estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The Company allocates the purchase price of communities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values in accordance with the provisions of ASC 805 - *Business Combinations* ("ASC 805"). The

Table of Contents

determination of fair value involves the use of significant judgment and estimation. The Company determines fair values as follows:

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

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

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

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

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

Long-term debt assumed is recorded at fair market value based on the current market rates and collateral securing the indebtedness. Any debt premium or discount recorded is amortized over the related debt maturity period.

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

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

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

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

Deferred Costs

Deferred financing and lease costs are recorded in other assets and amortized on a straight-line basis, which approximates the level yield method, over the term of the related debt or lease.

Income Taxes

Income taxes are accounted for under the asset and liability approach which requires recognition of deferred tax assets and liabilities for the differences between the financial reporting and tax bases of assets and liabilities. A valuation allowance reduces deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

Cash and cash equivalents, cash and escrow deposits-restricted and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow

Table of Contents

analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value of \$2.6 billion as of December 31, 2010 and 2009. As of December 31, 2010 and 2009, the fair value of debt was \$2.5 billion and \$2.6 billion, respectively.

ASC 820 - *Fair Value Measurement* ("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.

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

The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of derivatives and amortization in the current period statement of operations (Note 18).

Cash and Cash Equivalents

The Company defines cash and cash equivalents as cash and investments with maturities of 90 days or less when purchased.

Cash and Escrow Deposits - Restricted

Cash and escrow deposits - restricted consist principally of deposits required by certain lenders and lessors pursuant to the applicable agreement and consist of the following (dollars in thousands):

	December 31,	
	2010	2009
Current:		
Real estate taxes	\$ 10,165	\$ 9,229
Tenant security deposits	4,591	6,861
Insurance reserves	12,916	7,578
Replacement reserve and other	53,886	31,574
Subtotal	<u>81,558</u>	<u>55,242</u>
Long term:		
Insurance reserves	6,116	6,866
Debt service and other deposits	59,200	89,008
Subtotal	<u>65,316</u>	<u>95,874</u>
Total	<u>\$ 146,874</u>	<u>\$ 151,116</u>

As of December 31, 2010 and 2009, ten communities located in Illinois are required to make escrow deposits under the Illinois Life Care Facility Act. As of December 31, 2010 and 2009, required deposits were \$19.6 million and \$16.5 million, respectively, all of which were made in the form of letters of credit.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts, to represent the Company's estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$14.5 million and \$13.9 million as of December 31, 2010 and 2009, respectively. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary.

Billings for services under third-party payor programs are recorded net of estimated retroactive adjustments, if any, under reimbursement programs. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Contractual or cost related adjustments from Medicare or Medicaid are accrued when assessed (without regard to when the assessment is paid or withheld). Subsequent positive or negative adjustments to these accrued amounts are recorded in net revenues when known.

Property, Plant and Equipment and Leasehold Intangibles

Property, plant and equipment and leasehold intangibles, which include amounts recorded under capital leases, are recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

<u>Asset Category</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements	40
Furniture and equipment	3 - 7
Leasehold improvements	1 - 18
Resident lease intangibles	1 - 4
Leasehold operating intangibles	1 - 18
Assets under capital and financing leases	Shorter of the lease term or asset useful life

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset, are capitalized and depreciated over their estimated useful life, or if the renovations or improvements are made with respect to communities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating lease. Facility operating expense excludes depreciation and amortization directly attributable to the operation of the facility.

Long-lived assets (groups) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates and discount rates.

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangibles are not amortized but are reviewed for impairment annually or more frequently if indicators arise. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense

growth rates, capitalization rates and discount rates. Acquired intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and all intangible assets are reviewed for impairment if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

Indefinite-lived intangible assets are tested for impairment annually during our fourth quarter or more frequently as required. The impairment test consists of a comparison of the estimated fair value of the indefinite-lived intangible asset with its carrying value. If the carrying amount exceeds its fair value, an impairment loss is recognized for that difference.

Amortization of the Company's definite lived intangible assets is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

<u>Asset Category</u>	<u>Estimated Useful Life (in years)</u>
Facility purchase options	40
Management contracts and other	3 – 5

Stock-Based Compensation

The Company adopted ASC 718 - *Stock Compensation* ("ASC 718") on Accounting for Share-based Payments in connection with initial grants of restricted stock effective August 2005, which were converted into shares of the Company's restricted stock on September 30, 2005 in connection with the Company's formation transaction. 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. Such 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.

Certain of the Company's employee stock awards vest only upon the achievement of performance targets. ASC 718 requires recognition of compensation cost only when achievement of performance conditions is considered probable. Consequently, the Company's determination of the amount of stock compensation expense requires a significant level of judgment in estimating the probability of achievement of these performance targets. Additionally, the Company must make estimates regarding employee forfeitures in determining compensation expense. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

Derivative Financial Instruments

In the normal course of business, a variety of financial instruments are used to manage or hedge interest rate risk. The Company entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. All derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. The change in mark-to-market of the value of the derivative is recorded as an adjustment to income or other comprehensive loss depending upon whether it has been designated and qualifies as an accounting hedge.

Prior to October 1, 2006, the Company qualified for hedge accounting on designated swap instruments pursuant to ASC 815 - *Derivatives and Hedging* ("ASC 815") with the effective portion of the change in fair value of the derivative recorded in other comprehensive income and the ineffective portion included in the change in fair value of derivatives in the statement of operations.

On October 1, 2006, the Company elected to discontinue hedge accounting prospectively for the previously designated swap instruments. Consequently, the net gains and losses accumulated in other comprehensive income

Table of Contents

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

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

Obligation to Provide Future Services

Annually, we calculate the present value of the net cost of future services and the use of communities to be provided to current residents of certain of our CCRCs and compare that amount with the balance of non-refundable deferred revenue from entrance fees received. If the present value of the net cost of future services and the use of communities exceeds the related anticipated revenues including non-refundable deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of communities) with a corresponding charge to income.

Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased and managed communities under a master insurance program, the Company's current policy provides for deductibles for each and every claim (\$250,000 effective January 1, 2009 and \$150,000 effective January 1, 2010). As a result, the Company is, in effect, self-insured for claims that are less than \$150,000. In addition, the Company maintains a self-insured workers compensation program and a self-insured employee medical program for amounts below excess loss coverage amounts, as defined. The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third party administrator estimates, consultants, advice from legal counsel and industry data, and adjusts accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

Investment in Unconsolidated Ventures

In accordance with ASC 810, the general partner or managing member of a venture consolidates the venture unless the limited partners or other members have either (1) the substantive ability to dissolve the venture or otherwise remove the general partner or managing member without cause or (2) substantive participating rights in significant decisions of the venture, including authorizing operating and capital decisions of the venture, including budgets, in the ordinary course of business. We have reviewed all ventures that are not VIEs where we are the general partner or managing member and have determined that in all cases the limited partners or other members have substantive participating rights such as those set forth above and, therefore, no ventures are consolidated.

For ventures not consolidated, we apply the equity method of accounting in accordance with ASC 323, *Investments — Equity Method and Joint Ventures*. Equity method investments are initially recorded at cost and subsequently are adjusted for our share of the venture's earnings or losses and cash distributions. In accordance with this guidance, the allocation of profit and losses should be analyzed to determine how an increase or decrease in net assets of the venture (determined in conformity with GAAP) will affect cash payments to the investor over the life of the venture and on its liquidation. Because certain venture agreements contain preferences with regard to cash flows from operations, capital events and/or liquidation, we reflect our share of profits and losses by determining the difference between our "claim on the investee's book value" at the end and the beginning of the period. This claim is calculated as the amount that we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method.

Our reported share of earnings is adjusted for the impact, if any, of basis differences between our carrying value of the equity investment and our share of the venture's underlying assets. We generally do not have future requirements to contribute additional capital over and above the original capital commitments, and therefore, we discontinue applying the equity method of accounting when our investment is reduced to zero barring an expectation of an imminent return to profitability. If the venture subsequently reports net income, the equity method of accounting is resumed only after our share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

When the majority equity partner in one of our ventures sells its equity interest to a third party, the venture frequently refinances its senior debt and distributes the net proceeds to the equity partners. All distributions received by us are first recorded as a reduction of our investment. Next, we record a liability for any contractual or implied future financial support to the venture including obligations in our role as a general partner. Any remaining distributions are recorded as the Company's share of earnings and return on investment in unconsolidated ventures in the consolidated statements of operations.

We evaluate realization of our investment in ventures accounted for using the equity method if circumstances indicate that our investment is other than temporarily impaired.

Community Leases

The Company, as lessee, makes a determination with respect to each of the community leases whether each should be accounted for as an operating lease or capital lease. The classification criteria is based on estimates regarding the fair value of the leased community, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements. In a business combination, the Company assumes the lease classification previously determined by the prior lessee absent a modification, as determined by ASC 840 - *Leases* ("ASC 840"), in the assumed lease agreement. Payments made under operating leases are accounted for in the Company's statement of operations as lease expense for actual rent paid plus or minus a straight-line adjustment for estimated minimum lease escalators and amortization of deferred gains in situations where sale-leaseback transactions have occurred. For communities under capital lease and lease financing obligation arrangements, a liability is established on the Company's balance sheet representing the present value of the future minimum lease payments and a corresponding long-term asset is recorded in property, plant and equipment and leasehold intangibles in the consolidated balance sheet. The asset is depreciated over the remaining lease term unless there is a bargain purchase option in which case the asset is depreciated over the useful life. Leasehold improvements purchased during the term of the lease are amortized over the shorter of their economic life or the lease term.

All of the Company's leases contain fixed or formula based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease. In addition, all rent-free or rent holiday periods are recognized in lease expense on a straight-line basis over the leased term, including the rent holiday period.

Sale-leaseback accounting is applied to transactions in which an owned community is sold and leased back from the buyer. Under sale-leaseback accounting, the Company removes the community and related liabilities from the balance sheet. Gain on the sale is deferred and recognized as a reduction of rent expense for operating leases and a reduction of interest expense for capital leases.

For leases in which the Company is involved with the construction of the building, the Company accounts for the lease during the construction period under the provisions of ASC 840. If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction in progress. Once construction is complete, the Company considers the requirements under ASC 840-40 - *Leases - Sale-Leaseback Transactions*. If the arrangement does not qualify for sale-leaseback accounting, the Company continues to amortize the financing obligation and depreciate the building over the lease term.

Treasury Stock

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

Dividends

On December 30, 2008, the Company's board of directors voted to suspend the Company's quarterly cash dividend indefinitely.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standard Update ("ASU") 2010-6, *Improving Disclosures About Fair Value Measurements* ("ASU 2010-6"), which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. ASU 2010-6 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. The Company does not expect the adoption of ASU 2010-6 to have a material impact on its consolidated financial statements.

In January 2010, the Company adopted the amendment in ASC 820 requiring new fair value disclosures on fair value measurements for all nonfinancial assets and liabilities, including separate disclosure of significant transfers into and out of Level 3 and the reasons for the transfers, the amount of transfers between Level 1 and Level 2 and the reasons for the transfers, lower level of disaggregation for fair value disclosures (by class rather than major category) and additional details on the valuation techniques and inputs used to determine Level 2 and Level 3 measurements. Other than the required disclosures, the adoption of the guidance had no impact on the consolidated financial statements.

In January 2010, the Company adopted amendments to the variable interest consolidation model in ASC 810, *Consolidation*. The amendments were applied to all structures in place at the date of adoption. Key amendment changes include: the scope exception for qualifying special purpose entities was eliminated, consideration of kick-out and participation rights in variable interest entity determination, qualitative analysis considerations for primary beneficiary determination, changes in related party considerations, and certain disclosure changes. The Company considered the amendments in accounting for its joint ventures and determined that the amendments had no impact on its current accounting.

In July 2010, the FASB issued a final accounting standards update that requires entities to provide extensive new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses. Adoption of this accounting standards update is required for public entities for interim or annual reporting periods ending on or after December 15, 2010. The adoption of the guidance had no impact on the consolidated financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Company's consolidated financial position or results of operations. Operating results of communities are reflected in the results of the segment in which they are classified as of the end of the period. Prior period results are recast to conform to the current period-end roll-up of communities by segment.

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 and restricted stock units.

During fiscal 2010, 2009 and 2008, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock awards and restricted stock units were antidilutive for the year and were not included in the computation of diluted weighted average shares. The weighted average unrestricted restricted stock grants and restricted stock units excluded from the calculations of diluted net loss per share were 1.5 million, 1.3 million and 1.7 million for the years ended December 31, 2010, 2009 and 2008, respectively.

4. Acquisitions

2010 Acquisitions

Effective June 16, 2010, the Company acquired four independent living communities that the Company previously leased for an aggregate purchase price of \$22.5 million. In connection with entering into the agreement to acquire the communities, the remaining leases between the Company and the seller/lessor were amended to modify and clarify certain of the terms thereof, including various financial and non-financial covenants. Transaction expenses of approximately \$0.3 million were incurred and were recorded as general and administrative expense in the current year. The results of operations of these communities, prior and subsequent to the acquisition, are reported in the Retirement Centers segment.

During the year ended December 31, 2010, the Company purchased seven home health agencies as part of its growth strategy for an aggregate purchase price of approximately \$8.0 million. The entire purchase price of the acquisitions has been ascribed to an indefinite useful life intangible and is recorded on the consolidated balance sheet under other intangible assets, net.

2009 Acquisitions

Effective November 18, 2009, the Company acquired 18 senior living communities in an asset acquisition from affiliates of Sunrise Senior Living, Inc. ("Sunrise"). The aggregate net purchase price for the 18 communities acquired was \$190.0 million. Transaction expenses of approximately \$2.4 million were incurred and were recorded as general and administrative expense in 2009. In connection with the acquisition, the Company assumed approximately \$98.8 million of non-recourse mortgage debt which had an acquisition date fair value of approximately \$92.0 million, with the balance of the purchase price paid from cash on hand. The results of operations of the acquired communities are included in the Assisted Living segment.

Effective December 17, 2009, the Company acquired the remaining interest in three retirement center communities that were previously managed by the Company and in which the Company previously had a noncontrolling interest. The Company's interest was previously accounted for under the equity method and had a fair value and carrying value of zero prior to the acquisition. The aggregate purchase price for the communities was \$102.0 million. Transaction expenses of \$0.3 million were incurred and were recorded as general and administrative expense in 2009. The Company financed the transaction by obtaining a \$75.4 million non-recourse mortgage loan with the balance of the purchase price was paid from cash on hand. The mortgage debt has a ten year term and bears interest at a fixed rate of 6.09%. The results of operations of the acquired communities are included in the Retirement Center segment.

During the year ended December 31, 2009, the Company purchased three home health agencies as part of its growth strategy for an aggregate purchase price of approximately \$1.5 million. The entire purchase price of the acquisitions has been ascribed to an indefinite useful life intangible and recorded on the consolidated balance sheet under other intangible assets, net.

5. Investment in Unconsolidated Ventures

The Company had investments in unconsolidated joint ventures of 20% in each of five entities at December 31, 2010 and 2009. The Company sold its 10% investment in one joint venture during the first quarter of 2009 for \$14.3 million. During the fourth quarter of 2009, the Company purchased the majority interest of one of its joint ventures (comprised of three communities) from the other partner (Note 4).

Table of Contents

At December 31, 2008, the Company had investments in unconsolidated joint ventures ranging from 10% to 25% in seven entities. The Company sold its 49% investment in one joint venture during the third quarter of 2008 for \$4.2 million, the loss on sale of which is reported in other non-operating income in the consolidated statements of operations.

Combined summarized financial information of the unconsolidated joint ventures accounted for using the equity method as of December 31, and for the years then ended are as follows (including the results of acquired joint venture prior to the effective date of the acquisition and divested joint venture through the effective date of the divestiture) (dollars in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statement of Operations Data			
Total revenue	\$ 77,800	\$ 100,854	\$ 113,246
Expense			
Facility operating expense	51,791	63,068	73,126
Depreciation and amortization	12,730	15,726	17,186
Interest expense	13,153	19,616	17,975
Other expense	662	1,684	2,475
Total expense	<u>78,336</u>	<u>100,094</u>	<u>110,762</u>
Interest income	24	3,834	3,932
Net (loss) income	<u>\$ (512)</u>	<u>\$ 4,594</u>	<u>\$ 6,416</u>
Balance Sheet Data			
Cash and cash equivalents		\$ 3,077	\$ 1,912
Property, plant and equipment, net		323,492	327,914
Other		115,189	119,456
Total assets		<u>\$ 441,758</u>	<u>\$ 449,282</u>
Accounts payable and accrued expenses		\$ 46,589	\$ 47,829
Long-term debt		265,825	267,435
Members' equity		129,344	134,018
Total liabilities and members' equity		<u>\$ 441,758</u>	<u>\$ 449,282</u>
Members' equity consists of:			
Invested capital		\$ 265,232	\$ 281,078
Cumulative net loss		(19,380)	(18,868)
Cumulative distributions		(116,508)	(128,192)
Members' equity		<u>\$ 129,344</u>	<u>\$ 134,018</u>

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

As of December 31, 2010 and 2009, net property, plant and equipment and leasehold intangibles, which include assets under capital leases, consisted of the following (dollars in thousands):

Table of Contents

	<u>2010</u>	<u>2009</u>
Land	\$ 273,214	\$ 272,737
Buildings and improvements	3,003,788	2,968,659
Furniture and equipment	382,488	334,553
Resident and leasehold operating intangibles	588,633	599,618
Construction in progress	16,463	17,702
Assets under capital and financing leases	<u>650,174</u>	<u>606,224</u>
Accumulated depreciation and amortization	4,914,760	4,799,493
Property, plant and equipment and leasehold intangibles, net	<u>(1,177,918)</u>	<u>(941,719)</u>
	<u>\$ 3,736,842</u>	<u>\$ 3,857,774</u>

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives and are tested for impairment whenever indicators of impairment arise.

During the years ended December 31, 2010, 2009 and 2008, the Company evaluated property, plant and equipment and leasehold intangibles for impairment. Through December 31, 2010, 2009 and 2008, non-cash charges of \$13.1 million within the Retirement Centers and Assisted Living segment, \$10.1 million within the Assisted Living segment and \$5.0 million within the Assisted Living segment, respectively, were recorded in the Company's operating results and shown within goodwill and asset impairment in the accompanying consolidated statements of operations. These charges are reflected as a decrease to the gross carrying value of the asset. The impairment charges are primarily due to lower than expected performance of the underlying business. Fair value of the assets was determined based upon estimates of future cash flows developed by management using Level 3 inputs or based on an estimated fair value per unit of the underlying communities.

For the years ended December 31, 2010, 2009 and 2008, the Company recognized depreciation and amortization expense on its property, plant and equipment and leasehold intangibles of \$258.0 million, \$233.9 million and \$242.8 million, respectively.

Future amortization expense for resident and leasehold operating lease intangibles is estimated to be as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Future</u> <u>Amortization</u>
2011	\$ 42,817
2012	42,001
2013	39,967
2014	34,637
2015	32,700
Thereafter	91,059
Total	<u>\$ 283,181</u>

7. Goodwill and Other Intangible Assets, Net

The Company adopted ASC 350 - *Goodwill and Other Intangible Assets*, on October 1, 2002 and tests goodwill for impairment annually or whenever indicators of impairment arise. During 2010 and 2009, the Company performed its annual impairment review of goodwill allocated to its reporting units and determined that no impairment charge was necessary. Estimates utilized in the fair value calculations are classified within Level 3 of the fair value hierarchy. As a result of the 2008 annual impairment review, the Company recorded a charge of \$215.0 million related to goodwill recorded on the CCRC segment which is recorded as a component of operating results and shown within goodwill and asset impairment in the accompanying consolidated statement of operations. The impairment charge is non-cash in nature. The Company determined the fair value of the reporting unit based on estimates of future cash flows developed by management. In determining the amount of goodwill impairment, the Company estimated fair value using estimated cash flows of the underlying businesses to value significant assets of the reporting unit. The impairment charge was primarily driven by adverse equity market conditions intensifying in the fourth quarter of 2008 that caused a decrease in current market multiples

Table of Contents

and the Company's stock price at December 31, 2008 compared with the Company's stock price at September 30, 2008.

Following is a summary of changes in the carrying amount of goodwill for the year ended December 31, 2010 and 2009 presented on an operating segment basis (dollars in thousands):

	December 31, 2010				December 31, 2009			
	Gross Carrying Amount	Adjustment	Accumulated Impairment and Other Charges	Net	Gross Carrying Amount	Adjustment	Accumulated Impairment and Other Charges	Net
Retirement Centers	\$ 7,642	\$ —	\$ (487)	\$ 7,155	\$ 7,642	\$ —	\$ (487)	\$ 7,155
Assisted Living	102,680	(142)	—	102,538	102,812	(132)	—	102,680
CCRCs	214,999	—	(214,999)	—	214,999	—	(214,999)	—
Total	\$ 325,321	\$ (142)	\$ (215,486)	\$ 109,693	\$ 325,453	\$ (132)	\$ (215,486)	\$ 109,835

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. Intangible assets with indefinite useful lives are not amortized until and unless their useful life is determined to no longer be indefinite. Such indefinite-lived intangible assets are tested for impairment annually or whenever indicators of impairment arise. The following is a summary of other intangible assets at December 31, 2010 and 2009 (dollars in thousands):

	December 31, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	\$ 147,782	\$ (13,867)	\$ 133,915	\$ 147,682	\$ (10,169)	\$ 137,513
Management contracts and other	158,041	(140,463)	17,578	158,041	(109,323)	48,718
Home health licenses	19,848	—	19,848	11,812	—	11,812
Total	\$ 325,671	\$ (154,330)	\$ 171,341	\$ 317,535	\$ (119,492)	\$ 198,043

Amortization expense related to definite-lived intangible assets for the twelve months ended December 31, 2010, 2009 and 2008 was \$34.8 million, \$35.2 million and \$35.7 million, respectively.

Estimated amortization expense related to intangible assets with definite lives at December 31, 2010, for each of the years in the five-year period ending December 31, 2015 and thereafter is as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Future Amortization</u>
2011	\$ 21,268
2012	3,690
2013	3,690
2014	3,690
2015	3,690
Thereafter	115,465
Total	\$ 151,493

8. Other Assets

Other assets consist of the following components as of December 31, (dollars in thousands):

Table of Contents

	<u>2010</u>	<u>2009</u>
Notes receivable	\$ 21,682	\$ 24,418
Deferred costs, net	20,184	21,635
Lease security deposits	33,659	34,354
Other	23,448	12,400
Total	<u>\$ 98,973</u>	<u>\$ 92,807</u>

9. Sale-Leaseback Transaction

2010 Transaction

On December 16, 2010, the Company entered into a sale-leaseback transaction with a third party lessor for the sale and leaseback of one of its retirement communities. The Company sold the community for a total of \$33.4 million and immediately leased the community back. Under the terms of the lease agreement, the Company will continue to operate the community until December 31, 2024. The lease is accounted for as a financing lease obligation.

2009 Transaction

On March 2, 2009, the Company entered into a sale-leaseback transaction with a third party lessor for the sale and leaseback of one of its skilled nursing communities. The Company sold the facility for a total of \$10.0 million and immediately leased the community back. Under the terms of the lease agreement, the Company will continue to operate the community until December 31, 2019. The lease is accounted for as an operating lease.

10. Debt

Long-term Debt, Capital Leases and Financing Obligations

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

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Mortgage notes payable due 2011 through 2020; weighted average interest rate of 5.32% in 2010 (weighted average interest rate of 4.70% in 2009)	\$ 1,342,931	\$ 1,416,732
\$150,000 Series A notes payable, secured by five communities and by a \$3.0 million letter of credit, bearing interest at LIBOR plus 0.88%, payable in monthly installments of interest only until August 2011 and payable in monthly installments of principal and interest through maturity in August 2013	150,000	150,000
Mortgages payable due 2012, weighted average interest rate of 5.64% in 2010 (weighted average interest rate of 5.64% in 2009), payable interest only through July 2010 and payable in monthly installments of principal and interest through maturity in July 2012 secured by the underlying assets of the portfolio, net of debt discount of \$0.9 million	210,897	212,407
Discount mortgage note payable due 2013, weighted average interest rate of 2.55% in 2010, net of debt discount of \$4.9 million (weighted average interest rate of 2.45% in 2009)	79,275	78,631
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae (weighted average interest rates of 1.73% and 1.84% at December 31, 2010 and 2009, respectively), due 2032, payable interest only until maturity, secured by the underlying assets of the portfolio	100,841	100,841
Capital and financing lease obligations payable through 2024; weighted average interest rate of 8.60% in 2010 (weighted average interest rate of 8.74% in 2009)	371,172	351,735
Mortgage note, bearing interest at a variable rate of LIBOR plus 0.70%, payable interest only through maturity in August 2012. The note is secured by 15 of the Company's communities and a \$11.5 million guaranty by the Company	<u>315,180</u>	<u>315,180</u>
Total debt	<u>2,570,296</u>	<u>2,625,526</u>

Table of Contents

Less current portion	71,676	166,185
Total long-term debt	<u>\$ 2,498,620</u>	<u>\$ 2,459,341</u>

The annual aggregate scheduled maturities of long-term debt obligations outstanding as of December 31, 2010 are as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Long-term Debt</u>	<u>Capital and Financing Lease Obligations</u>	<u>Total Debt</u>
2011	\$ 50,933	\$ 54,773	\$ 105,706
2012	670,703	57,178	727,881
2013	734,050	56,855	790,905
2014	148,346	56,235	204,581
2015	37,976	55,638	93,614
Thereafter	<u>562,844</u>	<u>324,072</u>	<u>886,916</u>
Total obligations	2,204,852	604,751	2,809,603
Less amount representing debt discount	(5,728)	—	(5,728)
Less amount representing interest (8.60%)	—	(233,579)	(233,579)
Total	<u>\$ 2,199,124</u>	<u>\$ 371,172</u>	<u>\$ 2,570,296</u>

Credit Facilities

As of January 1, 2010, the Company had an available secured line of credit of \$75.0 million (including a \$25.0 million letter of credit sublimit) and secured and unsecured letter of credit facilities of up to \$78.5 million in the aggregate. The line of credit bore interest at a rate of 6.0% and was scheduled to mature on August 31, 2010. No amounts were borrowed under the secured line of credit during 2010.

2010 Credit Facility

Effective February 23, 2010, the \$75.0 million revolving credit facility with Bank of America, N.A. was terminated and the Company entered into a credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The new facility had an initial commitment of \$100.0 million, with an option to increase the commitment to \$120.0 million (which was exercised on May 5, 2010), and was scheduled to mature on June 30, 2013.

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

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

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

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

As of December 31, 2010, the Company had an available secured line of credit with a \$120.0 million commitment and secured and unsecured letter of credit facilities of up to \$82.5 million in the aggregate. As of December 31, 2010, there were no borrowings under the revolving loan facility and \$72.0 million of letters of credit had been issued under the secured and unsecured letter of credit facilities.

2011 Credit Facility

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

Financings

On February 25, 2010, the Company obtained a \$44.6 million first mortgage loan, secured by five communities that the Company acquired in November 2009. The loan bears interest at a fixed rate of 6.33% and matures in March 2020. In connection with the transaction, the Company repaid \$13.3 million of debt that had been assumed at the time of closing of the acquisition.

Effective May 11, 2010, the Company exercised its option to extend the maturity date of \$121.0 million of mortgage notes from May 11, 2010 to May 11, 2011. No other terms of the notes were changed in connection with the extension.

On June 11, 2010, the Company obtained a \$117.0 million first mortgage loan, secured by 21 communities. The loan bears interest at a fixed rate of 5.98% and matures in July 2020. In connection with the transaction, the Company repaid \$119.0 million of existing variable rate debt.

On August 26, 2010, the Company obtained a \$38.0 million first mortgage loan, secured by three communities. The initial draw on the loan was \$31.5 million. The loan bears interest at LIBOR plus 5.00%, with a base rate of 1.25%, and matures in August 2015. In connection with the transaction, the Company repaid \$39.3 million of existing variable rate debt.

On August 26, 2010, the Company obtained a \$181.0 million first mortgage loan, secured by nine communities. The loan bears interest at a fixed rate of 5.90% and matures in August 2017. In connection with the transaction, the Company repaid \$205.2 million of existing variable rate debt and obtained the release of \$27.6 million of restricted cash that had been held as partial security for the debt.

On December 22, 2010, the Company amended and restated a \$30.0 million first mortgage loan, secured by one community. The amended loan bears interest at a fixed rate of 6.00% and matures in August 2017. In connection with the transaction, the Company repaid \$10.0 million of debt under the pre-existing mortgage agreement bringing the outstanding loan balance to \$20.0 million.

On December 29, 2010, the Company amended and restated a \$70.0 million first mortgage loan, secured by one community. The amended loan bears interest at a fixed rate of 6.16% and matures in September 2017. In connection with the transaction, the Company repaid \$13.0 million of debt under the pre-existing mortgage agreement bringing the outstanding loan balance to \$57.0 million.

On December 31, 2010, the Company exercised its two-year extension option on \$92.1 million of mortgage notes payable originally due in 2011. The mortgage notes mature in 2013 and are appropriately classified as long-term debt.

Table of Contents

As of December 31, 2010, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

Interest Rate Swaps and Caps

In the normal course of business, a variety of financial instruments are used to manage or hedge interest rate risk. Interest rate protection and swap agreements were entered into to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to the hedge agreements, the Company is required to secure its obligation to the counterparty if the fair value liability exceeds a specified threshold. No cash collateral was pledged as of December 31, 2010. Cash collateral pledged to the Company's counterparties was \$16.2 million as of December 31, 2009.

All derivative instruments are recognized as either assets or liabilities in the consolidated balance sheet at fair value. The change in mark-to-market of the value of the derivative is recorded as an adjustment to income or other comprehensive loss depending upon whether it has been designated and qualifies as an accounting hedge.

Derivative contracts are not entered into for trading or speculative purposes. Furthermore, the Company has a policy of only entering into contracts with major financial institutions based upon their credit rating and other factors. Under certain circumstances, the Company may be required to replace a counterparty in the event that the counterparty does not maintain a specified credit rating.

The following table summarizes the Company's swap instrument at December 31, 2010 (dollars in thousands):

Current notional balance	\$	150,000
Highest possible notional	\$	150,000
Lowest interest rate		0.87%
Highest interest rate		0.87%
Average fixed rate		0.87%
Earliest maturity date		2013
Latest maturity date		2013
Weighted average original maturity		2.9 years
Estimated liability fair value (included in other liabilities at December 31, 2009)	\$	(16,950)
Estimated asset fair value (included in other assets at December 31, 2010)	\$	281

The following table summarizes the Company's cap instruments at December 31, 2010 (dollars in thousands):

Current notional balance	\$	925,865
Highest possible notional	\$	925,865
Lowest interest cap rate		4.96%
Highest interest cap rate		6.50%
Average fixed cap rate		5.82%
Earliest maturity date		2011
Latest maturity date		2012
Weighted average original maturity		3.2 years
Estimated asset fair value (included in other assets at December 31, 2010)	\$	157
Estimated asset fair value (included in other assets at December 31, 2009)	\$	1,221

During the year ended December 31, 2010, the Company terminated 12 swap agreements with a total notional amount of \$351.8 million and entered into one new swap agreement with a notional amount of \$150.0 million. In conjunction with these transactions, \$20.4 million was paid to the respective counterparties, of which \$14.9 million was previously deposited as collateral.

11. Accrued Expenses

Accrued expenses consist of the following components as of December 31, (dollars in thousands):

	<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 49,200	\$ 50,385
Insurance reserves	33,263	30,036
Real estate taxes	21,552	23,480
Vacation	21,434	20,033
Lease payable	8,704	8,350
Interest	7,358	6,878
Income taxes	1,946	1,519
Other	28,080	28,931
Total	<u>\$ 171,537</u>	<u>\$ 169,612</u>

12. Facility Operating Leases

The Company has entered into sale leaseback and lease agreements with certain real estate investment trusts (REITs). Under these agreements communities are either sold to the REIT and leased back or a long-term lease agreement is entered into for the communities. The initial lease terms vary from 10 to 20 years and include renewal options ranging from 5 to 30 years. The Company is responsible for all operating costs, including repairs, property taxes and insurance. The substantial majority of the Company's lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. The Company typically guarantees its performance and the lease payments under the master lease and is subject to net worth, minimum capital expenditure requirements per community per annum and minimum lease coverage ratios. Failure to comply with these covenants could result in an event of default. Certain leases contain cure provisions generally requiring the posting of an additional lease security deposit if the required covenant is not met.

As of December 31, 2010 and 2009, the Company operated 351 and 359 communities, respectively, under long-term leases (289 operating leases and 62 capital and financing leases at December 31, 2010). The remaining base lease terms vary from 7 months to 37 years and generally provide for renewal, extension and purchase options. The Company expects to renew, extend or exercise purchase options in the normal course of business; however, there can be no assurance that these rights will be exercised in the future.

One lease required posting of a lease security deposit in an interest bearing account at closing. The lease security deposit will be released upon achieving certain lease coverage ratios. The Company agreed to spend a minimum of \$450 per unit per year on capital improvements of which the lessor will reduce the security deposit by the same amount up to \$600 per unit, or \$2.7 million per year. For the years ended December 31, 2010, 2009 and 2008, a release of \$2.7 million, \$2.2 million and \$2.7 million, respectively, was received from the lease security deposit.

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

	For the Years Ended		
	December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash basis payment	\$ 264,727	\$ 260,590	\$ 253,226
Straight-line expense	10,521	15,851	20,585
Amortization of deferred gain	(4,343)	(4,345)	(4,342)
Facility lease expense	<u>\$ 270,905</u>	<u>\$ 272,096</u>	<u>\$ 269,469</u>

13. Self-Insurance

The Company obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policy. Losses related to deductible amounts are accrued based on the Company's estimate of expected

losses plus incurred but not reported claims. As of December 31, 2010 and 2009, the Company accrued \$62.4 million and \$59.2 million, respectively, for the self-insured portions of programs of which \$29.2 million is classified as long-term for both December 31, 2010 and 2009.

The Company has secured self-insured retention risk under workers' compensation and general liability and professional liability programs with cash aggregating \$18.0 million and \$13.9 million as of December 31, 2010 and 2009, respectively, and letters of credit aggregating \$33.7 million as of both December 31, 2010 and 2009.

14. Retirement Plans

The Company maintains a 401(k) Retirement Savings Plan for all employees that meet minimum employment criteria. The plan provides that the participants may defer eligible compensation on a pre-tax basis subject to certain Internal Revenue Code maximum amounts. For the year ended December 31, 2008, the Company made matching contributions in amounts equal to 50% of the employee's contribution to the plan, up to a maximum of 4.0% of contributed compensation. Employees are always 100% vested in their own contributions and vest in the Company's contributions over five years. The Company's expense related to this plan was \$4.8 million for the year ended December 31, 2008. This amount is included in facility operating expense and general and administrative expense in the accompanying consolidated statements of operations. In 2009, the Company suspended the matching contribution. Effective January 1, 2010, the Company began making matching contributions in amounts equal to 12.5% of the employee's contribution to the plan, up to a maximum of 4.0% of contributed compensation. An additional matching contribution of 12.5%, subject to the same limit on contributed compensation, may be made at the discretion of the board of directors, based upon the Company's performance. For the year ended December 31, 2010, the Company's expense to this plan was \$2.3 million.

15. Related Party Transactions

Pursuant to the terms of his employment agreement, in October 2000, BLC loaned approximately \$2.0 million to Mark J. Schulte, the Company's former Co-Chief Executive Officer and a current member of the Company's Board of Directors. In exchange, BLC received a ten-year, secured, non-recourse promissory note, which note bore interest at a rate of 6.09% per annum, 2.0% of which was payable in cash and the remainder of which accrued and was due at maturity on October 2, 2010. The note was secured by a portion of the Company's common stock owned by Mr. Schulte. The note was paid in full in 2010.

Under the terms of the registration rights provisions of the Company's Stockholders Agreement, the Company is generally obligated to pay all fees and expenses incurred in connection with certain public offerings by affiliates of Fortress (other than underwriting discounts, commissions and transfer taxes). In connection with the Company's obligations thereunder, the Company incurred approximately \$0.6 million and \$0.8 million of expenses in 2010 and 2009, respectively, related to the public equity offerings of Company shares by Fortress affiliates.

16. Stock-Based Compensation

In December 2004, the FASB issued guidance on accounting for share-based payment transactions, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. 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. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. The Company adopted this guidance in connection with its initial grants of restricted stock effective August 2005, which were converted into BSL restricted stock on September 30, 2005.

On August 5, 2005, BLC and Alterra adopted employee restricted stock plans to attract, motivate, and retain key employees. The plans provide for the grant of restricted securities to those participants selected by their board of directors. At September 30, 2005 these restricted shares were converted into a total of 2.6 million shares of restricted stock in BSL at a value of \$19.00 per share. All outstanding awards under these plans became fully vested in 2010.

Table of Contents

On October 14, 2005, the Company adopted a new equity incentive plan for its employees, the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan ("Incentive Plan"), which was approved by its stockholders on October 14, 2005. A total of 2,000,000 shares of common stock were initially reserved for issuance under the Incentive Plan; provided, however, that commencing on the first day of the fiscal year beginning in calendar year 2006, the number of shares reserved and available for issuance was increased by an amount equal to the lesser of (1) 400,000 shares or (2) 2% of the number of outstanding shares of common stock on the last day of the immediately preceding fiscal year. The maximum aggregate number of shares subject to stock options or stock appreciation rights that may be granted to any individual during any fiscal year may not exceed 500,000, and the maximum aggregate number of shares that will be subject to awards of restricted stock, deferred shares, unrestricted shares or other stock-based awards that may be granted to any individual during any fiscal year will be 500,000.

In connection with the ARC Merger, the Company's board of directors approved an amendment to the Incentive Plan (the "Plan Amendment") to reserve an additional 2,500,000 shares of common stock for issuance thereunder to satisfy (i) obligations to provide for certain purchases of common stock by ARC officers and employees and (ii) obligations to make corresponding grants of restricted shares of common stock under the Incentive Plan to those ARC officers and employees who purchased such shares of common stock pursuant to employment agreements and optionee agreements entered into in connection with the ARC Merger, and for such other grants that may be made from time to time pursuant to the Incentive Plan. Upon completion of the ARC Merger, the Company issued 475,681 shares of common stock to certain officers of ARC at \$38.07 per share for aggregate proceeds of \$18.1 million and granted the officers 475,681 shares of restricted stock at \$48.00 per share. On May 12, 2006, funds managed by affiliates of Fortress Investment Group, which then held approximately 65% of the Company's common stock, executed a written consent approving the Plan Amendment effective upon consummation of the ARC Merger. This consent constituted the consent of a majority of the total number of shares of outstanding common stock and was sufficient to approve the Plan Amendment.

On June 15, 2006, the Company registered 2,900,000 shares of common stock (2,500,000 shares of common stock in connection with the ARC Merger and 400,000 shares of common stock resulting from the automatic annual increase for fiscal year 2006), under the Incentive Plan. On June 26, 2008, the Company registered an additional 800,000 shares under the Incentive Plan (representing the automatic annual increase that occurred on January 1, 2007 and January 1, 2008). On June 23, 2009, the Company registered an additional 6,400,000 shares under the Incentive Plan (representing a 6,000,000 share increase approved by the Company's stockholders on June 23, 2009 and the automatic annual increase that occurred on January 1, 2009).

Certain participants received dividends on unvested shares. Where participants did not receive dividends on unvested shares during the vesting period, the grant-date per share fair value was reduced for the present value of the expected dividend stream during the vesting period. The shares are subject to certain transfer restrictions and may be forfeited upon termination of a participant's employment for any reason, absent a change in control of the Company.

On February 7, 2008, the Company entered into a Separation Agreement and General Release with an officer that accelerated the vesting provision of his restricted stock grants as of March 3, 2008 upon satisfying certain conditions. As a result of the modification, the previous compensation expense related to these grants was reversed and a charge based on the fair value of the stock at the modification date was recorded over the modified vesting period. The net impact of the adjustment was \$2.7 million of additional expense for the year ended December 31, 2008.

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

The Company has issued restricted stock units to its Chief Executive Officer. Under the terms of the award agreement, upon vesting, each restricted stock unit represents the right to receive one share of the Company's common stock.

The following table sets forth information about the Company's restricted stock awards (excluding restricted stock units) (amounts in thousands):

	Number of Shares		
	2010	2009	2008
Outstanding on January 1,	3,915	3,543	3,020
Granted	1,341	2,326	1,975
Vested	(1,423)	(1,321)	(944)
Cancelled/forfeited	(293)	(633)	(508)
Outstanding on December 31,	3,540	3,915	3,543

The weighted-average grant-date fair value of restricted shares and restricted stock units granted during the years 2010, 2009, and 2008 was \$16.92, \$9.55, and \$16.10, respectively. As of December 31, 2010, there was \$56.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted. That cost is expected to be recognized over a period of 2.3 years.

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

	Shares/Restricted Stock Units Granted	Value Per Share	Total Value
Three months ended March 31, 2010	64	\$17.95 - \$18.19	\$1,151
Three months ended June 30, 2010	1,146	\$16.85 - \$21.36	\$19,312
Three months ended September 30, 2010	51	\$14.18 - \$14.75	\$720
Three months ended December 31, 2010	80	\$16.70 - \$18.78	\$1,503

Compensation expense of \$20.8 million, \$26.9 million and \$28.9 million in connection with the grants of restricted stock and restricted stock units was recorded for the years ended December 31, 2010, 2009 and 2008, respectively. For the years ended December 31, 2010, 2009 and 2008, compensation expense was calculated net of forfeitures estimated from 0% - 10%, 0% - 5% and 0% - 6%, respectively, of the shares granted.

The Company has an employee stock purchase plan for all eligible employees. The plan became effective on October 1, 2008. Under the plan, eligible employees of the Company can purchase shares of the Company's common stock on a quarterly basis at a discounted price through accumulated payroll deductions. Each eligible employee may elect to deduct up to 15% of his or her base pay each quarter. Subject to certain limitations specified in the plan, on the last trading date of each calendar quarter, the amount deducted from each participant's pay over the course of the quarter will be used to purchase whole shares of the Company's common stock at a purchase price equal to 90% of the closing market price on the New York Stock Exchange on that date. Initially, the Company has reserved 1,000,000 shares of common stock for issuance under the plan. The employee stock purchase plan also contains an "evergreen" provision that automatically increases the number of shares reserved for issuance under the plan by 200,000 shares on the first day of each calendar year beginning January 1, 2010. The impact on the Company's current year consolidated financial statements is de minimis.

17. Stockholders' Equity

On June 8, 2009, the Company completed a public equity offering of 16,046,512 shares of common stock. The offering yielded net proceeds of approximately \$163.8 million which was used primarily to repay the \$125.0 million of indebtedness which was outstanding under the Company's amended credit facility.

18. Fair Value Measurements

The following table provides the Company's derivative assets and liabilities carried at fair value as measured on a recurring basis as of December 31, 2010 (dollars in thousands):

	Total Carrying Value at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	\$ 438	\$ —	\$ 438	\$ —
Derivative liabilities	—	—	—	—
	\$ 438	\$ —	\$ 438	\$ —

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

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

19. Share Repurchase Program

On March 19, 2008, the Company's board of directors approved a share repurchase program that authorized the Company to purchase up to \$150.0 million in the aggregate of the Company's common stock. Purchases could be made from time to time using a variety of methods, which could include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases was to be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program did not obligate the Company to acquire any particular amount of common stock and the program could be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program were to be held as treasury shares.

On February 25, 2009, the Company's board of directors terminated this share repurchase authorization.

20. Income Taxes

The benefit for income taxes is comprised of the following (dollars in thousands):

	For the Years Ended December 31,		
	2010	2009	2008
Federal			
Current	\$ 626	\$ 2,795	\$ (77)
Deferred	33,235	31,684	89,498
	33,861	34,479	89,421
State:			
Current	(2,429)	(1,553)	(2,690)
Deferred (included in Federal above)	—	—	—
	(2,429)	(1,553)	(2,690)
Total	\$ 31,432	\$ 32,926	\$ 86,731

A reconciliation of the benefit for income taxes to the amount computed at the U.S. Federal statutory rate of 35% is as follows (dollars in thousands):

Table of Contents

	For the Years Ended December 31,		
	2010	2009	2008
Tax benefit at U.S. statutory rate	\$ 28,117	\$ 34,713	\$ 160,990
Credits	3,354	2,088	—
State taxes, net of federal income tax	1,634	3,002	16,449
Unrecognized tax benefits	626	1,892	—
Other, net	172	(99)	152
Goodwill impairment	—	—	(83,850)
Officer's compensation	(2,197)	(2,147)	—
Stock compensation	(137)	(5,550)	(3,682)
Valuation allowance	(137)	(973)	(3,328)
Total	\$ 31,432	\$ 32,926	\$ 86,731

Significant components of the Company's deferred tax assets and liabilities at December 31 are as follows (dollars in thousands):

	2010	2009
Deferred income tax assets:		
Operating loss carryforwards	\$ 165,617	\$ 197,520
Capital lease obligations	70,407	100,551
Prepaid revenue	48,713	42,604
Accrued expenses	46,111	40,788
Deferred lease liability	44,097	42,048
Tax credits	13,548	8,048
Deferred gain on sale leaseback	13,035	14,312
Fair value of interest rate swaps	—	5,884
Total gross deferred income tax asset	401,528	451,755
Valuation allowance	(10,845)	(10,708)
Net deferred income tax assets	390,683	441,047
Deferred income tax liabilities:		
Property, plant and equipment	(478,023)	(564,868)
Fair value of interest rate swaps	(516)	—
Other	(10,571)	(8,804)
Total gross deferred income tax liability	(489,110)	(573,672)
Net deferred tax liability	\$ (98,427)	\$ (132,625)

A reconciliation of the net deferred tax liability to the consolidated balance sheets at December 31 is as follows (dollars in thousands):

	2010	2009
Deferred tax asset – current	\$ 15,529	\$ 7,688
Deferred tax liability – noncurrent	(113,956)	(140,313)
Net deferred tax liability	\$ (98,427)	\$ (132,625)

In connection with Alterra's emergence from bankruptcy in December 2003, its assets and liabilities were recorded at their respective fair market values. Deferred tax assets and liabilities were recognized for the tax effect of the difference between the fair values and the tax bases of Alterra's assets and liabilities. In addition, deferred tax assets were recognized for the future use of net operating losses. The valuation allowance established

Table of Contents

to reduce deferred tax assets as of December 31, 2004 was \$28.4 million. The reduction in this valuation allowance relating to net deferred tax items existing at the Effective Date will increase additional paid in capital.

At December 31, 2004, Alterra increased additional paid-in capital by \$4.8 million as a result of a reduction in valuation allowance related to net deferred tax assets not benefited under fresh-start accounting, but realized in the year ended December 31, 2004. During 2005, Alterra reduced additional paid-in capital by \$0.9 million due to a reversal of the valuation allowance, related to net deferred tax asset.

As of December 31, 2010 and 2009, the Company had net operating loss carryforwards of approximately \$427.8 million and \$504.9 million, respectively, which are available to offset future taxable income through 2028. The Company believes it is more likely than not that it will utilize all of its federal losses prior to expiration based primarily on the future reversals of existing taxable temporary differences. Although realization is not assured, management believes it is more likely than not that all of the net operating loss carryforwards will be utilized. The Company has recorded valuation allowances of \$8.6 million and \$8.5 million at December 31, 2010 and 2009, respectively, against its state net operating losses, as the Company anticipates these losses will not be utilized prior to expiration. The carryforward period for some states is considerably shorter than the period which is allowed for Federal purposes. The Company also recorded a valuation allowance of \$2.2 million against federal and state credits as of December 31 2010 and December 31, 2009. As of December 31, 2010 and 2009, the Company had \$15.2 million and \$10.8 million, respectively, included in its net operating loss carryforward relating to restricted stock grants. Under ASC 718-10, this loss will be recorded in additional paid-in capital in the period in which the loss is effectively used to reduce taxes payable.

The formation of BSL, reorganization of Alterra, and the acquisitions of ARC and SALI constitute ownership changes under Section 382 of the Internal Revenue Code, as amended. As a result, BSL's ability to utilize the net operating loss carryforward to offset future taxable income is subject to certain limitations and restrictions. Furthermore, the Company had an ownership change under Section 382 in May 2010 which resulted in an additional annual limitation to the utilization of the net operating loss in an amount of \$92 million. The Company expects the net operating loss to be fully released before expiration and therefore does not anticipate a financial statement impact as a result of the limitation.

The Company adopted ASC 740 - *Income Taxes* ("ASC 740") as of January 1, 2007. At December 31, 2010, the Company had gross tax affected unrecognized tax benefits of \$1.6 million, which, if recognized, would result in an income tax benefit in accordance with ASC 805. Interest and penalties related to these tax positions are classified as tax expense in the Company's financial statements. Total interest and penalties reserved is \$0.5 million at December 31, 2010. Tax returns for years 2007 through 2009 are subject to future examination by tax authorities. In addition, tax returns are open from 1999 through 2006 to the extent of the net operating losses generated during those periods. The Company does not expect that unrecognized tax benefits for tax positions taken with respect to 2010 and prior years will significantly change in 2011.

A reconciliation of the unrecognized tax benefits for the year 2010 is as follows (dollars in thousands):

Balance at January 1, 2010	\$ 2,398
Additions for tax positions related to the current year	320
Additions for tax positions related to prior years	—
Reductions for tax positions related to prior years	(946)
Settlements	(175)
Balance at December 31, 2010	\$ 1,597

21. Supplemental Disclosure of Cash Flow Information

(dollars in thousands)

	For the Years Ended December 31,		
	2010	2009	2008
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$ 132,425	\$ 131,347	\$ 148,377
Income taxes paid	\$ 2,223	\$ 1,682	\$ 1,591
Write-off of deferred financing costs	\$ 2,878	\$ 2,725	\$ —
Supplemental Schedule of Noncash Operating, Investing and Financing Activities:			
De-consolidation of leased development property:			
Property, plant and equipment and leasehold intangibles, net	\$ —	\$ (3,887)	\$ (6,387)
Long-term debt	—	3,887	6,387
Net	\$ —	\$ —	\$ —
Capital leases:			
Property, plant and equipment and leasehold intangibles, net	\$ 5,791	\$ 18,236	\$ 35,942
Long-term debt	(5,791)	(18,236)	(35,942)
Net	\$ —	\$ —	\$ —
Lease Incentive:			
Property, plant and equipment and leasehold intangibles, net	\$ —	\$ 1,237	\$ —
Deferred liabilities	—	(1,237)	—
Net	\$ —	\$ —	\$ —
Acquisitions of assets, net of related payables and cash received, net:			
Cash and escrow deposits-restricted	\$ —	\$ 1,404	\$ —
Prepaid expenses and other current assets	—	10,573	—
Property, plant and equipment and leasehold intangibles	52,900	285,488	—
Other intangible assets, net	7,963	1,543	6,731
Other assets, net	(2,870)	40	—
Accrued expenses	(45)	—	—
Other liabilities	—	(2,900)	—
Long-term debt and capital and financing lease obligations	—	(92,011)	—
Net	\$ 57,948	\$ 204,137	\$ 6,731
De-consolidation of an entity pursuant to FIN 46(R):			
Accounts receivable	\$ —	\$ —	\$ 92
Prepaid expenses and other current assets	—	—	1,870
Property, plant and equipment and leasehold intangibles, net	—	—	36,613
Other assets, net	—	—	7
Investment in unconsolidated ventures	—	—	186
Long-term debt	—	—	(29,159)
Accrued expenses	—	—	(1,252)
Trade accounts payable	—	—	(20)
Tenant security deposits	—	—	(173)
Refundable entrance fees and deferred revenue	—	—	(89)
Additional paid-in-capital	—	—	(13,287)
Accumulated deficit	—	—	5,212
Net	\$ —	\$ —	\$ —
Reclassification of other intangibles, net	\$ —	\$ 141	\$ —

22. Commitments and Contingencies

The Company has three operating lease agreements for 31,845, 55,296 and 99,374 square feet (unaudited) of corporate office space that extend through 2012, 2019 and 2014, respectively. The leases require the payment of base rent which escalates annually, plus operating expenses (as defined). The Company incurred rent expense of

\$2.9 million, \$3.9 million and \$4.0 million for the years ended December 31, 2010, 2009 and 2008, respectively, under the corporate office leases.

The aggregate amounts of all future minimum operating lease payments, including community and office leases, as of December 31, 2010, are as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2011	\$ 265,442
2012	262,182
2013	251,747
2014	226,040
2015	216,709
Thereafter	749,829
Total	<u>\$ 1,971,949</u>

The Company has employment or letter agreements with certain officers of the Company that grant these employees the right to receive their base salary and continuation of certain benefits, for a defined period of time, in the event of certain terminations of the officers' employment, as described in those agreements.

23. Litigation

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

24. Segment Information

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

During the year ended December 31, 2009, eight communities moved between segments to more accurately reflect the underlying product offering of each segment. The movement did not change the Company's reportable segments, but it did impact the revenues and cost reported within each segment.

Retirement Centers. Retirement center communities are primarily designed for middle to upper income senior citizens age 70 and older who desire an upscale residential environment providing the highest quality of service. The majority of the Company's retirement center communities consist of both independent living and assisted living units in a single community, which allows residents to "age-in-place" by providing them with a continuum of senior independent and assisted living services.

Assisted Living. Assisted living communities offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. 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. CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have retirement centers, assisted living and skilled nursing available on one campus, and some also include memory care and Alzheimer's units.

Management Services. The Company's management services segment includes communities owned by others and operated by the Company pursuant to management agreements. Under management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of certain expenses it incurs on behalf of the owners.

The accounting policies of the Company's reporting 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):

	For the Years Ended December 31,		
	2010	2009	2008
Revenue ⁽¹⁾ :			
Retirement Centers	\$ 530,161	\$ 496,744	\$ 497,453
Assisted Living	1,023,785	925,917	890,075
CCRCs	653,727	593,688	533,532
Management Services	5,591	6,719	6,994
	<u>\$ 2,213,264</u>	<u>\$ 2,023,068</u>	<u>\$ 1,928,054</u>
Segment Operating Income ⁽²⁾ :			
Retirement Centers	\$ 218,816	\$ 213,608	\$ 211,418
Assisted Living	361,926	324,969	299,431
CCRCs	189,001	175,495	148,630
Management Services	3,914	4,703	4,896
	<u>773,657</u>	<u>718,775</u>	<u>664,375</u>
General and administrative (including non-cash stock compensation expense) ⁽³⁾	130,032	132,848	138,821
Facility lease expense	270,905	272,096	269,469
Depreciation and amortization	292,341	271,935	276,202
Facility lease termination expense	4,608	—	—
(Gain) loss on sale of communities, net	(3,298)	2,043	—
Goodwill and asset impairment	13,075	10,073	220,026
Income (loss) from operations	<u>\$ 65,994</u>	<u>\$ 29,780</u>	<u>\$ (240,143)</u>
	As of December 31,		
	2010	2009	2008
Total assets:			
Retirement Centers	\$ 1,132,934	\$ 1,109,806	\$ 1,094,180
Assisted Living	1,433,123	1,519,760	1,532,311
CCRCs	1,632,755	1,690,121	1,476,206
Corporate and Management Services	331,658	330,192	346,561
	<u>\$ 4,530,470</u>	<u>\$ 4,649,879</u>	<u>\$ 4,449,258</u>

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

(2) Segment operating income is defined as segment revenues less segment operating expenses (excluding depreciation and amortization).

(3) Net of general and administrative costs allocated to management services reporting segment.

25. Quarterly Results of Operations (Unaudited)

The following is a summary of quarterly results of operations for each of the fiscal quarters in 2010 and 2009 (in thousands, except per share amounts):

	For the Quarters Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues	\$ 544,424	\$ 548,972	\$ 558,464	\$ 561,404
Income from operations ⁽¹⁾	15,838	23,744	8,640	17,772
Loss before income taxes	(21,673)	(14,886)	(28,734)	(15,040)
Net loss	(14,295)	(9,557)	(16,913)	(8,136)
Weighted average basic and diluted loss per share	\$ (0.12)	\$ (0.08)	\$ (0.14)	\$ (0.07)
Weighted average shares used in computing basic and diluted loss per share	119,315	119,721	120,404	120,580

	For the Quarters Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenues	\$ 497,946	\$ 500,757	\$ 505,843	\$ 518,522
Income (loss) from operations ⁽¹⁾	10,253	16,754	7,165	(4,392)
Loss before income taxes	(22,748)	(13,025)	(28,619)	(34,789)
Net loss	(13,636)	(10,530)	(21,290)	(20,799)
Weighted average basic and diluted loss per share	\$ (0.13)	\$ (0.10)	\$ (0.18)	\$ (0.18)
Weighted average shares used in computing basic and diluted loss per share	101,738	106,042	118,455	118,653

(1) Fourth quarter 2010 and 2009 results include non-cash impairment charges of \$13.1 million and \$10.1 million, respectively.

26. Subsequent Events

Effective January 13, 2011, the Company acquired twelve assisted living communities that the Company previously leased for an aggregate purchase price of \$31.3 million. The results of operations of these communities will be reported in the Assisted Living segment.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
December 31, 2010
(In thousands)

Description	Balance at Beginning of Period	Additions		Acquisitions	Deductions	Balance at End of Period
		Charged to costs and expenses	Charged To other Accounts			
Deferred Tax Valuation Account:						
Year ended December 31, 2008	\$ 6,407	\$ —	\$ 3,328 ⁽¹⁾	\$ —	\$ —	\$ 9,735
Year ended December 31, 2009	\$ 9,735	\$ —	\$ 973 ⁽²⁾	\$ —	\$ —	\$ 10,708
Year ended December 31, 2010	\$ 10,708	\$ —	\$ 137 ⁽³⁾	\$ —	\$ —	\$ 10,845

- (1) Adjustment to valuation allowance for state net operating losses of \$1,800. Establishment of valuation allowance against federal tax credits of \$1,528.
(2) Adjustment to valuation allowance for state net operating losses of \$264. Establishment of valuation allowance against state tax credit of \$709.
(3) Adjustment to valuation allowance for state net operating losses of \$137.

See accompanying report of independent registered public accounting firm.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Management's Assessment of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15 (f). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2010. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K and incorporated herein by reference.

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 Exchange Act) 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 December 31, 2010, our disclosure controls and procedures were effective.

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 December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference from the discussions under the headings "Proposal Number One - Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders. Pursuant to General Instruction G(3), certain information concerning our executive officers is contained in the discussion entitled "Executive Officers of the Registrant" under Item 4 of Part I of this report.

We have adopted a Code of Business Conduct and Ethics that applies to all employees, directors and officers, including our principal executive officer, our principal financial officer, our principal accounting officer or controller, or persons performing similar functions, as well as a Code of Ethics for Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Co-Presidents, Chief Financial Officer, Executive Vice Presidents of Finance and Controller, both of which are available on our website at www.brookdaleliving.com. Any amendment to, or waiver from, a provision of such codes of ethics granted to a principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions, will be posted on our website.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference from the discussions under the headings “Compensation of Directors” and “Compensation of Executive Officers” in our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading “Security Ownership of Certain Beneficial Owners and Management” in our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

The following table provides certain information as of December 31, 2010 with respect to our equity compensation plans (after giving effect to shares issued and/or vesting on such date):

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)(1)	Weighted-average exercise price of outstanding options, warrants and, rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)(2)
Equity compensation plans approved by security holders ⁽³⁾	—	—	5,622,078
Equity compensation plans not approved by security holders ⁽⁴⁾	—	—	89,246
Total	—	—	5,711,324

- (1) In addition to options, warrants, and rights, our Omnibus Stock Incentive Plan allows awards to be made in the form of shares of restricted stock, restricted stock units or other forms of equity-based compensation. As of December 31, 2010, 3,539,751 shares of unvested restricted stock and 300,000 restricted stock units issued under our Omnibus Stock Incentive Plan were outstanding. Such shares and restricted stock units are not reflected in the table above.
- (2) The number of shares remaining available for future issuance under equity compensation plans approved by security holders consists of 4,633,531 shares remaining available for future issuance under our Omnibus Stock Incentive Plan and 988,547 shares remaining available for future issuance under our Associate Stock Purchase Plan.
- (3) Under the terms of our Omnibus Stock Incentive Plan, the number of shares reserved and available for issuance will increase annually each January 1 by an amount equal to the lesser of (1) 400,000 shares or (2) 2% of the number of outstanding shares of our common stock on the last day of the immediately preceding fiscal year. Under the terms of our Associate Stock Purchase Plan, the number of shares reserved and available for issuance will automatically increase by 200,000 shares on the first day of each calendar year beginning January 1, 2010.
- (4) Represents shares remaining available for future issuance under our Director Stock Purchase Plan. Under the existing compensation program for the members of our Board of Directors, each non-affiliated director has the opportunity to elect to receive either immediately vested shares or restricted stock units in lieu of up to 50% of his or her quarterly cash compensation. Any immediately vested shares that are elected to be received will be issued pursuant to the Director Stock Purchase Plan. Under the director compensation program, all cash amounts are payable quarterly in arrears, with payments to be made on April 1, July 1, October 1 and January 1. Any immediately vested shares that a director elects to receive under the Director

Table of Contents

Stock Purchase Plan will be issued at the same time that cash payments are made. The number of shares to be issued will be based on the closing price of our common stock on the date of issuance (i.e., April 1, July 1, October 1 and January 1), or if such date is not a trading date, on the previous trading day's closing price. Fractional amounts will be paid in cash. The Board of Directors initially reserved 100,000 shares of our common stock for issuance under the Director Stock Purchase Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference from the discussions under the headings "Certain Relationships and Related Transactions" and "Director Independence" in our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference from the discussion under the heading "Proposal Number Two – Ratification of Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm" in our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

- 1) Our Audited Consolidated Financial Statements
Balance Sheets as of December 31, 2010 and 2009
Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008
Statements of Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008
Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008
Notes to Consolidated Financial Statements
Schedule II – Valuation and Qualifying Accounts
- 2) 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 Section 13 or 15(d) 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.

By: /s/ W.E. Sheriff
 Name: W.E. Sheriff
 Title: Chief Executive Officer
 Date: February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Wesley R. Edens</u> Wesley R. Edens	Chairman of the Board	February 28, 2011
<u>/s/ W.E. Sheriff</u> W.E. Sheriff	Chief Executive Officer and Director	February 28, 2011
<u>/s/ Mark W. Ohlendorf</u> Mark W. Ohlendorf	Co-President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2011
<u>/s/ Frank M. Bumstead</u> Frank M. Bumstead	Director	February 28, 2011
<u>/s/ Jackie M. Clegg</u> Jackie M. Clegg	Director	February 28, 2011
<u>/s/ Jeffrey R. Leeds</u> Jeffrey R. Leeds	Director	February 28, 2011
<u>/s/ Randal A. Nardone</u> Randal A. Nardone	Director	February 28, 2011
<u>/s/ Mark J. Schulte</u> Mark J. Schulte	Director	February 28, 2011
<u>/s/ James R. Seward</u> James R. Seward	Director	February 28, 2011
<u>/s/ Samuel Waxman</u> Samuel Waxman	Director	February 28, 2011

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 26, 2010).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on January 19, 2010).
4.1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) (No. 333-127372) filed on November 7, 2005).
4.2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on 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).
10.1	Consent to Change of Control and Third Amendment to Master Lease, dated April 1, 2006, by and between Health Care Property Investors, Inc., Texas HCP Holding, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC LaBarc Real Estate Holdings, LLC, on the one hand, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., LaBarc, L.P. and Park Place Investments, LLC, on the other hand, and ARCPI Holdings, Inc. and American Retirement Corporation (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2006).
10.2	Second Amended and Restated Master Lease Agreement, dated as of April 7, 2006, among Health Care REIT, Inc., HCRI North Carolina Properties III, Limited Partnership, HCRI Tennessee Properties, Inc., HCRI Indiana Properties, LLC, HCRI Wisconsin Properties, LLC, and HCRI Texas Properties, Ltd., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement on Form S-1 (No. 333-135030) filed on June 14, 2006).
10.3.1	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Time-Vesting; No Dividends) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2007).*
10.3.2	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Time-Vesting; With Dividends) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2007).*
10.3.3	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Performance/Time-Vesting; With Dividends) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2007).*
10.3.4	Form of Restricted Share Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan (Performance/Time-Vesting; No Dividends) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2007).*
10.4	Separation Agreement and General Release, dated February 7, 2008, between Brookdale Senior Living Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 11, 2008).*
10.5	Brookdale Senior Living Inc. Associate Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 11, 2008).*
10.6.1	Second Amended and Restated Credit Agreement, dated as of February 27, 2009, among Brookdale Senior Living Inc., certain of its subsidiaries, the several lenders parties thereto, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on March 2, 2009).

Table of Contents

10.6.2	Pledge Agreement, dated as of February 27, 2009, among Brookdale Senior Living Inc., certain of its subsidiaries, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed on March 2, 2009).
10.6.3	Security Agreement, dated as of February 27, 2009, among certain subsidiaries of Brookdale Senior Living Inc. and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on March 2, 2009).
10.6.4	First Amendment, dated as of June 1, 2009, to the Second Amended and Restated Credit Agreement, dated as of February 27, 2009, among the Company, certain of its subsidiaries, the several lenders parties thereto, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 2, 2009).
10.7	Brookdale Senior Living Inc. Omnibus Stock Incentive Plan, as amended and restated effective June 23, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 23, 2009).*
10.8	Employment Agreement, dated as of June 23, 2009, by and between Brookdale Senior Living Inc. and W.E. Sheriff (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 26, 2009).*
10.9	Restricted Stock Unit Agreement, dated as of June 23, 2009, by and between Brookdale Senior Living Inc. and W.E. Sheriff (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 26, 2009).*
10.10	Summary of Brookdale Senior Living Inc. Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (No. 333-160354) filed on June 30, 2009).*
10.11	First Amendment to Brookdale Senior Living Inc. Omnibus Stock Incentive Plan, as amended and restated, effective as of October 30, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2009).*
10.12.1	Credit Agreement, dated as of February 23, 2010, among certain subsidiaries of Brookdale Senior Living Inc., General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on February 26, 2010).
10.12.2	First Amendment, dated as of May 5, 2010, to the Credit Agreement, dated as of February 23, 2010, among certain subsidiaries of Brookdale Senior Living Inc., General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2010).
10.13	Form of Severance Letter and Brookdale Senior Living Inc. Severance Pay Policy, Tier I (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2010).*
10.14	Amended and Restated Credit Agreement, dated as of January 31, 2011, among certain subsidiaries of Brookdale Senior Living Inc., General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 4, 2011).
10.15	First Amendment, dated as of February 23, 2011, to Amended and Restated Credit Agreement, dated as of January 31, 2011, among certain subsidiaries of Brookdale Senior Living Inc., General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto.
10.16	Form of Indemnification Agreement for Directors and Officers.*
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP.
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.**

Table of Contents

* Management Contract or Compensatory Plan

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

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, W.E. Sheriff, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brookdale Senior Living Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2011

/s/ W.E. Sheriff

W.E. Sheriff
Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark W. Ohlendorf, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brookdale Senior Living Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2011

/s/ Mark W. Ohlendorf
Mark W. Ohlendorf
Chief Financial Officer

EXHIBIT 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**

In connection with the Annual Report on Form 10-K of Brookdale Senior Living Inc. (the "Company") for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), W.E. Sheriff, as Chief Executive Officer of the Company, and Mark W. Ohlendorf, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W.E. Sheriff

Name: W.E. Sheriff
Title: Chief Executive Officer
Date: February 28, 2011

/s/ Mark W. Ohlendorf

Name: Mark W. Ohlendorf
Title: Chief Financial Officer
Date: February 28, 2011