Brookdale Senior Living Inc.
Form 10-Q
August 11, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from _____________ to _____________

Commission File Number: 001-32641

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

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

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

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

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

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

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

Large accelerated filer	T	Accelerated filer	£

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

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

As of August 5, 2014, 172,992,205 shares of the registrant's common stock, $0.01 par value, were outstanding (excluding unvested restricted shares).

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FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2014

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$50,934	$58,511
Cash and escrow deposits — restricted	36,279	38,191
Accounts receivable, net	103,365	104,262
Deferred tax asset	17,050	17,643
Prepaid expenses and other current assets, net	81,065	76,255
Total current assets	288,693	294,862
Property, plant and equipment and leasehold intangibles, net	3,911,338	3,895,475
Cash and escrow deposits — restricted	58,935	57,611
Investment in unconsolidated ventures	41,965	44,103
Goodwill	109,553	109,553
Other intangible assets, net	157,003	158,757
Other assets, net	183,289	177,396
Total assets	$4,750,776	$4,737,757
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$64,031	$201,954
Trade accounts payable	52,022	65,840
Accrued expenses	198,925	209,479
Refundable entrance fees and deferred revenue	398,060	388,400
Tenant security deposits	4,900	5,171
Total current liabilities	717,938	870,844
Long-term debt, less current portion	2,571,460	2,404,624
Line of credit	12,000	30,000
Deferred entrance fee revenue	92,025	86,862
Deferred liabilities	155,949	154,870
Deferred tax liability	81,299	81,299
Other liabilities	88,482	88,321
Total liabilities	3,719,153	3,716,820
Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 131,019,627 and 130,155,012 shares issued and 128,591,226 and 127,726,611 shares outstanding (including 3,183,184 and 3,372,937 unvested restricted shares), respectively	1,286	1,277
Additional paid-in-capital	2,041,742	2,025,471
Treasury stock, at cost; 2,428,401 shares at June 30, 2014 and December 31, 2013	(46,800)	(46,800)

Accumulated deficit	(964,605)	(959,011)
Total stockholders' equity	1,031,623	1,020,937
Total liabilities and stockholders' equity	$4,750,776	$4,737,757

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue				
Resident fees	$653,517	$620,938	$1,303,827	$1,245,308
Management fees	7,489	7,744	14,891	15,353
Reimbursed costs incurred on behalf of managed communities	87,387	87,786	176,950	168,073
Total revenue	748,393	716,468	1,495,668	1,428,734
Expense				
Facility operating expense (excluding depreciation and amortization of $64,067, $59,444, $126,728 and $116,699, respectively)	435,415	416,027	865,285	829,030
General and administrative expense (including non-cash stock-based compensation expense of $7,729, $6,988, $15,301 and $13,882, respectively)	53,816	46,035	109,325	92,646
Facility lease expense	70,030	68,777	139,899	137,796
Depreciation and amortization	71,088	67,254	141,404	131,913
Asset impairment	—	2,154	—	2,154
Costs incurred on behalf of managed communities	87,387	87,786	176,950	168,073
Total operating expense	717,736	688,033	1,432,863	1,361,612
Income from operations	30,657	28,435	62,805	67,122
Interest income	285	252	606	555
Interest expense:				
Debt	(29,657)	(29,843)	(59,655)	(60,814)
Amortization of deferred financing costs and debt discount	(4,078)	(4,348)	(8,096)	(8,917)
Change in fair value of derivatives	(1,322)	1,836	(2,169)	1,971
Loss on extinguishment of debt	(3,197)	(893)	(3,197)	(893)
Equity in earnings of unconsolidated ventures	1,523	445	2,159	560
Other non-operating income	3,456	80	3,921	1,086
(Loss) income before income taxes	(2,333)	(4,036)	(3,626)	670
Provision for income taxes	(962)	(1,164)	(1,968)	(2,312)
Net loss	$(3,295)	$(5,200)	$(5,594)	$(1,642)
Basic and diluted net loss per share	$(0.03)	$(0.04)	$(0.04)	$(0.01)
Weighted average shares used in computing basic and diluted net loss per share	125,058	123,405	124,770	123,114

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock					
	Shares	Amount	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Total
Balances at January 1, 2014	127,727	$ 1,277	$ 2,025,471	$ (46,800)	$ (959,011)	$ 1,020,937
Compensation expense related to restricted stock grants		—	15,301	—	—	15,301
Net loss		—	—	—	(5,594)	(5,594)
Issuance of common stock under Associate Stock Purchase Plan	28	—	817	—	—	817
Restricted stock, net	836	9	(9)	—	—	—
Other		—	162	—	—	162
Balances at June 30, 2014	128,591	$ 1,286	$ 2,041,742	$ (46,800)	$ (964,605)	$ 1,031,623

See accompanying notes to condensed consolidated financial statements.
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BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net loss	$(5,594)	$(1,642)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	3,197	893
Depreciation and amortization	149,500	140,830
Asset impairment	—	2,154
Equity in earnings of unconsolidated ventures	(2,159)	(560)
Distributions from unconsolidated ventures from cumulative share of net earnings	615	1,441
Amortization of deferred gain	(2,186)	(2,186)
Amortization of entrance fees	(14,749)	(14,165)
Proceeds from deferred entrance fee revenue	23,941	21,361
Deferred income tax provision	593	—
Change in deferred lease liability	(440)	1,432
Change in fair value of derivatives	2,169	(1,971)
Loss (gain) on sale of assets	115	(902)
Non-cash stock-based compensation	15,301	13,882
Changes in operating assets and liabilities:		
Accounts receivable, net	1,415	(7,328)
Prepaid expenses and other assets, net	(14,185)	(3,539)
Accounts payable and accrued expenses	(13,316)	2,055
Tenant refundable fees and security deposits	(477)	(593)
Deferred revenue	474	(6,334)
Net cash provided by operating activities	144,214	144,828
Cash Flows from Investing Activities		
Increase in lease security deposits and lease acquisition deposits, net	(66)	(3,018)
Decrease in cash and escrow deposits — restricted	588	3,021
Additions to property, plant and equipment and leasehold intangibles, net	(133,429)	(100,291)
Acquisition of assets, net of related payables and cash received	(515)	(4,835)
Payments on (issuance of) notes receivable, net	2,640	(64)
Investment in unconsolidated ventures	—	(7,992)
Distributions received from unconsolidated ventures	2,643	—
Proceeds from sale of assets, net	—	7,554
Net cash used in investing activities	(128,139)	(105,625)
Cash Flows from Financing Activities		
Proceeds from debt	180,154	427,622
Repayment of debt and capital lease obligations	(181,813)	(488,532)
Proceeds from line of credit	82,000	190,000
Repayment of line of credit	(100,000)	(200,000)
Payment of financing costs, net of related payables	(818)	(7,895)
Refundable entrance fees:		
Proceeds from refundable entrance fees	16,942	19,390

Refunds of entrance fees	(17,659)	(16,776)
Cash portion of loss on extinguishment of debt	(3,180)	(453)
Purchase of derivatives	—	(1,489)
Other	722	636
Net cash used in financing activities	(23,652)	(77,497)
Net decrease in cash and cash equivalents	(7,577)	(38,294)
Cash and cash equivalents at beginning of period	58,511	69,240
Cash and cash equivalents at end of period	$50,934	$30,946

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of June 30, 2014, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management's discussion and analysis of financial condition and results of operations, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the Securities and Exchange Commission.

Revenue Recognition

Resident Fees

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

Entrance Fees

Certain of the Company's communities have residency agreements which require the resident to pay an upfront entrance fee prior to occupying the community. In addition, in connection with the Company's MyChoice program, new and existing residents are allowed to pay additional entrance fee amounts in return for a reduced monthly service fee. The non-refundable portion of the entrance fee is recorded as deferred entrance fee revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the sale of the unit. The refundable portion of the fee is not amortized and included in refundable entrance fees. All refundable amounts due to residents at any time in the future are classified as current liabilities.

Management Fees

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

Reimbursed Costs Incurred on Behalf of Managed Communities

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

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 fair value using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and/or independent appraisals. The Company allocates the purchase price of communities based on their fair values in accordance with the provisions of Accounting Standards Codification ("ASC") 805 - Business Combinations ("ASC 805"). The 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 of future revenue and costs, and 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 or are valued utilizing discounted cash flow projections that assume certain future revenues and costs over the remaining contract. The assets are then 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.

Contingent consideration is valued using a probability-weighted discounted cash flow model.

Deferred Financing Costs

Deferred financing costs include fees and costs incurred to obtain long-term debt and are recorded in other assets and amortized on a straight-line basis, which approximates the effective yield method, over the term of the related debt. Unamortized deferred financing fees are written-off when debt is retired before the maturity date. Upon refinancing of mortgage debt or amendment of the line of credit, unamortized deferred financing fees and additional financing costs incurred are accounted for in accordance with ASC 470-50, Debt Modifications and Extinguishments.

Fair Value of Financial Instruments

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

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cash and cash equivalents and cash and escrow deposits – restricted are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity.

The Company estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value and estimated fair value of approximately $2.6 billion as of June 30, 2014 and December 31, 2013. The Company's fair value of debt disclosure is classified within Level 2 of the valuation hierarchy.

Self-Insurance Liability Accruals

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

New Accounting Pronouncements

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

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. ASU 2014-09 is effective for annual periods beginning on or after December 15, 2016. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the Company's condensed consolidated financial statements and disclosures.

3. Earnings Per Share

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

During the three and six months ended June 30, 2014 and 2013, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock and restricted stock unit awards and convertible debt instruments and warrants were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit awards excluded from the calculations of diluted net loss per share were 3.6 million and 4.3 million for the three months ended June 30, 2014 and 2013, respectively, and 3.7 million and 4.4 million for the six months ended June 30, 2014 and 2013, respectively.

As a result of the net loss, the calculation of diluted weighted average shares also excludes the impact of conversion of the Company's $316.3 million of convertible senior notes. As of June 30, 2014 and 2013, the maximum number of shares issuable upon conversion of the notes is approximately 13.8 million (after giving effect to additional make-whole shares issuable upon conversion in connection with the occurrence of certain events); however it is the Company's current intent and policy to settle the principal amount of the notes in cash upon conversion. The maximum number of shares issuable upon conversion of the notes in excess of the amount of principal that would be settled in cash is approximately 3.0 million. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of June 30, 2014 and 2013, the number of shares issuable upon exercise of the warrants is approximately 10.8 million.

4. Stock-Based Compensation

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

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

The Company's compensation expense recorded in connection with grants of restricted stock for the three and six months ended June 30, 2014 and 2013 reflects an initial estimated cumulative forfeiture rate from 0% to 10% over the requisite service period of the awards. That estimate is revised if subsequent information indicates that the actual number of awards expected to vest is likely to differ from previous estimates.

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

	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2014	1,028	$27.01 – $27.18	$27,774
Three months ended June 30, 2014	42	$31.06 – $33.84	$1,313

5. Goodwill and Other Intangible Assets, Net

The following is a summary of the carrying amount of goodwill for the six months ended June 30, 2014 and the year ended December 31, 2013 presented on an operating segment basis (dollars in thousands):

	June 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Impairment and Other Charges	Net	Gross Carrying Amount	Accumulated Impairment and Other Charges	Net
Retirement Centers	$7,642	$ (521)	$7,121	$7,642	$ (521)	$7,121
Assisted Living	102,680	(248)	102,432	102,680	(248)	102,432
Total	$110,322	$ (769)	$109,553	$110,322	$ (769)	$109,553

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. No indicators of impairment were present during the six months ended June 30, 2014.

The following is a summary of other intangible assets at June 30, 2014 and December 31, 2013 (dollars in thousands):

	June 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	$147,610	$ (26,810)	$120,800	$147,610	$ (24,961)	$122,649
Health care licenses	34,499	—	34,499	33,853	—	33,853
Other	3,331	(1,627)	1,704	3,331	(1,076)	2,255
Total	$185,440	$ (28,437)	$157,003	$184,794	$ (26,037)	$158,757

Amortization expense related to definite-lived intangible assets for both the three months ended June 30, 2014 and 2013 was $1.2 million and for the six months ended June 30, 2014 and 2013 was $2.4 million and $2.3 million, respectively. Health care licenses were determined to be indefinite-lived intangible assets and are not subject to amortization. No indicators of impairment were present during the six months ended June 30, 2014.

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

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

	June 30, 2014	December 31, 2013
Land	$302,829	$302,444
Buildings and improvements	3,563,952	3,508,693
Leasehold improvements	65,357	59,948
Furniture and equipment	667,072	623,352
Resident and leasehold operating intangibles	435,012	435,012
Construction in progress	97,200	88,309
Assets under capital and financing leases	740,542	699,973
	5,871,964	5,717,731
Accumulated depreciation and amortization	(1,960,626)	(1,822,256)
Property, plant and equipment and leasehold intangibles, net	$3,911,338	$3,895,475

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise. No indicators of impairment were present during the six months ended June 30, 2014.

7. Debt

Long-Term Debt, Capital Leases and Financing Obligations

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

	June 30, 2014	December 31, 2013
Mortgage notes payable due 2016 through 2023; weighted average interest rate of 4.03% for the six months ended June 30, 2014, net of debt premium of $1.1 million (weighted average interest rate of 4.12% in 2013)	$2,025,362	$2,037,649
Capital and financing lease obligations payable through 2026; weighted average interest rate of 8.05% for the six months ended June 30, 2014 (weighted average interest rate of 8.14% in 2013)	312,178	299,824
Convertible notes payable in aggregate principal amount of $316.3 million, less debt discount of $49.5 million and $54.8 million at June 30, 2014 and December 31, 2013, respectively, interest at 2.75% per annum, due June 2018	266,794	261,443
Construction financing due 2017 through 2027; weighted average interest rate of 5.20% for the six months ended June 30, 2014 (weighted average interest rate of 6.22% in 2013)	28,453	4,476
Notes payable issued to finance insurance premiums, weighted average interest rate of 2.65% for the six months ended June 30, 2014 (weighted average interest rate of 2.65% in 2013), due 2014	2,704	3,186
Total debt	2,635,491	2,606,578
Less current portion	64,031	201,954
Total long-term debt	$2,571,460	$2,404,624

Credit Facilities

On March 28, 2013, the Company entered into a second amended and restated credit agreement with General Electric Capital Corporation, as administrative agent and lender, and the other lenders from time to time parties thereto. The amended credit agreement extended the maturity date of the facility to March 31, 2018 and decreased the interest rate payable on advances and the fee payable on the unused portion of the facility. The amended credit agreement provided an option to increase the committed amount initially from $230.0 million to $250.0 million, which the Company exercised on June 28, 2013, and provides an additional option to increase the committed amount from $250.0 million to up to $350.0 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The amended credit agreement also permits reduction of the committed amount or termination of the facility during the last two years of the five year term without payment of a premium or penalty. The amended credit agreement was further amended and restated effective September 20, 2013 to, among other things, incorporate a $25.0 million swingline feature to permit same-day borrowing.

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

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

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

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

As of June 30, 2014, the Company had an available secured line of credit with a commitment and available amount of $250.0 million (of which $12.0 million had been drawn as of such date). The Company also had secured and unsecured letter of credit facilities of up to $84.5 million in the aggregate as of June 30, 2014. Letters of credit totaling $71.6 million had been issued under these facilities as of that date.

Financings

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

As of June 30, 2014, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

8. Litigation

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

Stockholder Litigation

In connection with the acquisition of Emeritus (as discussed in Note 13), three purported class action lawsuits relating to the Agreement and Plan of Merger, dated as of February 20, 2014 (the "Merger Agreement"), by and among the Company, Emeritus Corporation ("Emeritus") and Broadway Merger Sub Corporation ("Merger Sub"), were filed on behalf of Emeritus shareholders in the Superior Court of King County, Washington against Emeritus, members of the Emeritus board of directors, the Company and Merger Sub (the "Defendants"), which lawsuits were subsequently consolidated into a single action captioned In re Emeritus Corp. Shareholder Litigation, No. 14-2-06385-7 SEA (the "Washington Action"). On June 26, 2014, the Defendants entered into a memorandum of understanding (the "Memorandum of Understanding") with respect to a proposed settlement of the Washington Action, pursuant to which the parties agreed, among other things, that the Company and Emeritus would make certain supplemental disclosures related to the proposed merger, which supplemental disclosures were made by the Company in a Current Report on Form 8-K filed with the Securities and Exchange Commission on June 27, 2014 and incorporated by reference into the Company's Registration Statement on Form S-4 and the joint proxy statement/prospectus of the Company and Emeritus included therein. The parties have agreed to use their collective best efforts to obtain final approval of the settlement and the dismissal of the Washington Action with prejudice. Subject to completion of certain confirmatory discovery by counsel to the plaintiffs, the Memorandum of Understanding contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to Emeritus' shareholders. As explained in the Memorandum of Understanding, if the settlement is finally approved by the Washington court, the parties anticipate that it will resolve and release all claims in all actions pursuant to terms that will be disclosed to former Emeritus shareholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel in the Washington Action will file a petition in the Washington court for an award of attorneys' fees and expenses to be paid by the Company. The Company will pay or cause to be paid any attorneys' fees and expenses awarded by the Washington court. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the Washington court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the Memorandum of Understanding may be terminated.

Emeritus Legal Matters

On July 29, 2013, a claim alleging the failure to provide certain services at Emeritus' California assisted living communities was filed against Emeritus in the Alameda County Superior Court and subsequently removed to the United States District Court for the Northern District of California. In this case, the plaintiff is seeking to represent a class of residents at such California communities during the period beginning July 29, 2009. The plaintiff alleges violations of certain laws, including California's Consumer Legal Remedies Act, Unfair Competition Law and Financial Elder Abuse statute. Emeritus has filed a motion to dismiss the action in its entirety, and the Company believes that the suit is without merit. At this time, the Company is unable to estimate a possible range of loss.

On March 29, 2013, Emeritus received a civil investigative demand ("CID") from the Western District of the Washington office of the United States Department of Justice ("DOJ") requesting certain documents related to Emeritus billing to Medicaid programs dating from January 1, 2008. The CID was issued in connection with an investigation undertaken by the DOJ and other agencies into Emeritus bills to Medicaid programs for assisted living facility services provided to Medicaid residents who may have been hospitalized during billed dates of service. Emeritus has been cooperating with the DOJ in connection with its investigation. The Company is currently unable to predict neither the outcome of this matter nor a reasonable range of potential losses.

9. Supplemental Disclosure of Cash Flow Information

(dollars in thousands):	Six Months Ended June 30, 2014	2013
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 60,399	$ 62,293
Income taxes paid	$ 2,168	$ 1,834
Write-off of deferred financing costs	$ 17	$ 440
Acquisition of assets, net of related payables and cash received:		
Prepaid expenses and other current assets	$ —	$ (1,326)
Property, plant and equipment and leasehold intangibles, net	—	17,157
Other intangible assets, net	—	2,306
Other assets, net	—	409
Accrued expenses	—	(3,866)
Long-term debt	—	(9,845)
Net	$ —	$ 4,835
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Capital and financing leases:		
Property, plant and equipment and leasehold intangibles, net	$ 27,100	$ —
Long-term debt	(27,100)	—
Net	$ —	$ —

10. Facility Operating Leases

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cash basis payment	$71,340	$69,186	$142,525	$138,550
Straight-line expense	(217)	684	(440)	1,432
Amortization of deferred gain	(1,093)	(1,093)	(2,186)	(2,186)
Facility lease expense	$70,030	$68,777	$139,899	$137,796

11. Income Taxes

The difference in the Company's effective tax rates for both the three and six months ended June 30, 2014 and 2013 was primarily due to changes in the Company's financial results under generally accepted accounting principles. The Company's tax expense mainly reflects its cash tax position for states that do not allow for or have suspended the use of net operating losses for the period. The Company continues to maintain that the deferred tax assets recorded as of June 30, 2014, primarily related to net operating losses generated prior to December 31, 2010, are not more likely than not to be realized based on the reversal of deferred tax liabilities recorded. However, if the Company continues its current trend of improved earnings before taxes under generally accepted accounting principles, this valuation allowance may be reduced in future periods.

The Company recorded interest charges related to its tax contingency reserve for cash tax positions for the six months ended June 30, 2014. Tax returns for years 2010 through 2012 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

12. Segment Information

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

During the six months ended June 30, 2014, two communities moved between segments to more accurately reflect the underlying product offering of the communities. The movement did not change the Company's reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers and Assisted Living segments. Revenue and expenses for the three and six months ended June 30, 2013 have not been recast.

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue[1]				
Retirement Centers	$133,441	$130,170	$265,790	$259,092
Assisted Living	277,230	260,497	554,661	521,112
CCRCs - Rental	98,212	97,562	196,156	197,889
CCRCs - Entry Fee	79,100	74,016	158,269	148,324
Brookdale Ancillary Services	65,534	58,693	128,951	118,891
Management Services[2]	94,876	95,530	191,841	183,426
	$748,393	$716,468	$1,495,668	$1,428,734
Segment operating income[3]				
Retirement Centers	$56,891	$54,177	$113,121	$107,511
Assisted Living	104,246	96,181	209,238	192,466
CCRCs - Rental	25,693	25,567	52,523	54,644
CCRCs - Entry Fee	18,367	17,772	38,002	37,343
Brookdale Ancillary Services	12,905	11,214	25,658	24,314
Management Services	7,489	7,744	14,891	15,353
	225,591	212,655	453,433	431,631
General and administrative (including non-cash stock-based compensation expense)	53,816	46,035	109,325	92,646
Facility lease expense	70,030	68,777	139,899	137,796
Depreciation and amortization	71,088	67,254	141,404	131,913
Asset impairment	—	2,154	—	2,154
Income from operations	$30,657	$28,435	$62,805	$67,122

	As of	
	June 30, 2014	December 31, 2013
Total assets		
Retirement Centers	$1,259,051	$1,258,294
Assisted Living	1,533,312	1,514,385
CCRCs - Rental	497,710	499,873
CCRCs - Entry Fee	964,049	960,708
Brookdale Ancillary Services	90,096	94,986
Corporate and Management Services	406,558	409,511
Total assets	$4,750,776	$4,737,757

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

13. Subsequent Events

Acquisition of Emeritus

On July 31, 2014, the Company acquired 100% of the equity and voting interests in Emeritus. The results of Emeritus' operations will be included in the condensed consolidated financial statements subsequent to that date. Emeritus is a senior living service provider focused on operating residential style communities throughout the United States. Emeritus' assisted living and Alzheimer's and dementia care communities provide a residential housing alternative for senior citizens who need help with the activities of daily living, with an emphasis on assisted living and personal care services. Many of Emeritus' communities offer independent living alternatives and, to a lesser extent, skilled nursing care. Emeritus also offers a range of outpatient therapy and home health services in Florida, Arizona and Texas. As of July 31, 2014, Emeritus owned 182 communities and leased 311 communities.

The aggregate acquisition-date fair value of the purchase consideration transferred for the acquisition of Emeritus was approximately $1.6 billion which consisted of the issuance of 47.6 million shares of common stock in the acquisition of outstanding Emeritus common stock and Emeritus stock options. The fair value of the 47.6 million common shares issued was determined based on the closing market price of the Company's common shares on the acquisition date.

As a result of the acquisition of Emeritus, the Company acquired entities that are lessees under operating and capital leases covering 311 communities, as well as certain other leases such as office leases and leases associated with Emeritus' Nurse on Call business. The community leases contain customary terms, including assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants. In connection with the closing of the acquisition, the Company has entered into guarantees of certain of these leases.

In addition, as a result of the acquisition of Emeritus, the Company assumed approximately $1.4 billion aggregate principal amount of existing mortgage indebtedness of Emeritus. The mortgage loans are collateralized by a total of 182 underlying communities, bear interest either at fixed rates at a weighted average of 6.07% per annum or at variable rates at a weighted average of 5.19% per annum (in each case, as of June 30, 2014), and have remaining maturities ranging from approximately three months to 33 years. The mortgage loans contain customary terms including assignment and change of control restrictions, acceleration provisions and financial covenants. In connection with the closing of the acquisition, the Company has entered into guarantees of certain of these debt arrangements.

In connection with its appeal of the June 4, 2013 judgment in the Joan Boice et al. v. Emeritus Corporation et al. case, Emeritus was required to post an appeal bond with the court. Emeritus made a cash deposit in the amount of $20.9 million to collateralize the bond. The amount of the cash deposit and the reserve regarding the judgment have been contemplated in the preliminary purchase price allocation.

The Company is in the process of obtaining third-party valuations of Emeritus' assets and liabilities. The table below presents a preliminary allocation of purchase price to the assets acquired and liabilities assumed (in millions):

Preliminary Allocation of Purchase Price	
Property, plant and equipment and leasehold intangibles	$5,520
Goodwill	518
Other intangible assets	287
Other assets	383
Long-term debt, capital leases and financing obligations	(4,192)
Other liabilities	(867)
Fair value of Brookdale common stock issued	$1,649

Upon completion of the fair value assessment, the Company anticipates the ultimate fair values of the net assets acquired will differ from the preliminary assessment outlined above. Generally, changes to the initial estimates of the fair value of the assets and liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

The goodwill of $518 million is primarily attributed to the synergies expected to arise after the acquisition. The goodwill is not deductible for tax purposes.

The following table provides the pro forma consolidated statements of operations as if the Company had acquired Emeritus on January 1, 2013 (in millions, except share data):

	Three Months Ended	Six Months Ended

	June 30, 2014	2013	June 30, 2014	2013
Total revenue	$1,273	$1,192	$2,542	$2,377
Net loss attributable to common shares	(43)	(132)	(93)	(259)
Basic and diluted net loss per share attributable to common shares	$(0.25)	$(0.77)	$(0.54)	$(1.52)
Weighted average shares used in computing basic and diluted net loss per share (in thousands)	172,642	170,989	172,354	170,698

The Company incurred $11.3 million and $21.8 million of acquisition costs related to the acquisition of Emeritus for the three months and six months ended June 30, 2014, respectively. Acquisition costs are primarily comprised of transaction fees and direct acquisition costs, including legal, finance, consulting, and other professional fees. These acquisition costs are included in general and administrative expense in the condensed consolidated statements of operations. These transaction costs are not expected to have a continuing significant impact on our financial results and therefore have been excluded from the pro forma consolidated statements of operations.

The pro forma consolidated statements of operations are based on assumptions and estimates considered appropriate by Brookdale's management; however, these pro forma results are not necessarily indicative of the results of operations that would have been obtained had the Emeritus acquisition occurred at the beginning of the periods presented, nor do they purport to represent the consolidated results of operations for future periods. These pro forma consolidated statements of operations do not include the impact of any synergies that may be achieved in the acquisition or any strategies that management may consider in order to continue to efficiently manage operations.

On July 30, 2014, in connection with the acquisition of Emeritus, the Company's Certificate of Incorporation was amended to authorize up to 400 million shares of common stock.

Community Acquisitions

In July 2014, the Company acquired the underlying real estate associated with four communities that were previously leased for an aggregate purchase price of $51.4 million. The results of operations of three and one of these communities, prior and subsequent to the acquisition, are reported in the Retirement Centers and Assisted Living segments, respectively. The Company financed the transactions with $17.0 million of seller-financing secured by three of the communities. The balance of the purchase price was paid from cash on hand.

HCP Transactions

On April 23, 2014, the Company and HCP, Inc., a Maryland corporation, ("HCP"), entered into a Master Contribution and Transactions Agreement (the "Master Agreement"). At the closing of the transactions contemplated by the Master Agreement (the "Master Agreement Closing"), the Company and HCP will enter into two joint venture transactions and amend the terms of certain existing agreements between the Company and HCP, and between Emeritus and HCP (collectively, the "HCP Transactions"). At the Master Agreement Closing:

- The Company and HCP will enter into a joint venture (the "CCRCs JV") with respect to certain continuing care retirement / entrance fee communities currently owned, leased and/or operated by the Company. The Company will own a 51% ownership interest and HCP will own a 49% ownership interest in the CCRCs JV.

- The Company and HCP will enter into a joint venture (the "RIDEA JV") with respect to certain independent living, assisted living, memory care and/or skilled nursing care communities currently owned by HCP and leased and operated by Emeritus. The Company will own a 20% ownership interest and HCP will own an 80% ownership interest in the RIDEA JV.

- The Company and HCP will amend and restate certain triple net leases (the "NNN-Leased Portfolio") between Emeritus and HCP in respect of 153 communities, which amended and restated leases will provide for the creation of multiple pools of master leases. The amended and restated leases will provide for lower future rent payments and escalations compared to the existing leases. HCP has agreed to make available up to $100 million for capital expenditures related to the communities in the NNN-Leased Portfolio during calendar years 2014 through 2017 at an initial lease rate of 7.0%.

In connection with the transactions contemplated by the Master Agreement, the Company and HCP have also agreed that the Company will waive the purchase option rights granted by HCP to Emeritus pursuant to 49 of the existing Emeritus leases. The Master Agreement Closing is subject to customary closing conditions including the receipt of regulatory approvals and lender consents. The HCP Transactions are expected to close during the third quarter of 2014, although there can be no assurance that the transactions will close or, if they do, when the actual closing will occur.

On April 22, 2014, the Company executed purchase agreements (the "Purchase Agreements") which provide for the acquisition by the Company of four communities managed by the Company (the "Managed Communities") for an aggregate purchase price of $323.5 million. In connection with the transactions contemplated by the Master Agreement, the Company will contribute the rights and obligations of the Company under the Purchase Agreements to the CCRCs JV and HCP will contribute $323.5 million in cash to the CCRCs JV for such purchases.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Certain statements in this Quarterly Report on Form 10-Q and other information we provide from time to time (including statements with respect to the integration of Emeritus and the transactions contemplated by the Master Agreement (as defined herein)) may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our operational initiatives and growth strategies and our expectations regarding their effect on our results; our expectations regarding the economy, the senior living industry, occupancy, revenue, cash flow, operating income, expenses, capital expenditures, Program Max opportunities, cost savings, the demand for senior housing, the home resale market, expansion, development and construction activity, acquisition opportunities, asset dispositions, our share repurchase program, taxes, capital deployment, returns on invested capital and Cash From Facility Operations; our expectations regarding returns to shareholders and our growth prospects; our expectations concerning the future performance of recently acquired communities and the effects of acquisitions on our financial results; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity and leverage; our expectations regarding financings and refinancings of assets (including the timing thereof) and their effect on our results; our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health and hospice); our plans to expand, renovate, redevelop and reposition existing communities; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; the expected project costs for our expansion, redevelopment and repositioning program; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations regarding our sales, marketing and branding initiatives and their impact on our results; our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein); and our expectations regarding the integration of Emeritus and the transactions contemplated by the Master Agreement. Words such as "anticipate(s)", "expect(s)", "intend(s)", "plan(s)", "target(s)", "project(s)", "predict(s)", "believe(s)", "may", "will", "would", "could", "should", "seek(s)", "estimate(s)" and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, the risk associated with the current global economic situation and its impact upon capital markets and liquidity; changes in governmental reimbursement programs; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; our determination from time to time to purchase any shares under the repurchase program; our ability to fund any repurchases; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; the risk that we may not be able to expand, redevelop and reposition our communities in accordance with our plans; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; early terminations or non-renewal of management agreements; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; risks relating to the integration of Emeritus and the transactions contemplated by the Master Agreement, including in respect of the satisfaction of closing conditions to the transactions contemplated by the Master Agreement; unanticipated difficulties and/or expenditures relating to the transactions contemplated by the Master Agreement; the risk that regulatory approvals required for the transactions contemplated by the Master Agreement are not obtained or are obtained subject to conditions that are not anticipated; uncertainties as to the timing of such transactions; litigation relating to such transactions; the impact of such transactions on relationships with residents, employees and third parties; and the inability to obtain, or delays in obtaining cost savings and synergies from such transactions; as well as other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other communications, including those set forth under "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2013, our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 and in this Quarterly Report. Such forward-looking statements speak only as of the date of this Quarterly Report. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Executive Overview

On July 31, 2014, we acquired 100% of the equity and voting interests in Emeritus. The results of Emeritus' operations will be included in the condensed consolidated financial statements subsequent to that date. Emeritus is a senior living service provider focused on operating residential style communities throughout the United States. Emeritus' assisted living and Alzheimer's and dementia care communities provide a residential housing alternative for senior citizens who need help with the activities of daily living, with an emphasis on assisted living and personal care services. Many of Emeritus' communities offer independent living alternatives and, to a lesser extent, skilled nursing care. Emeritus also offer a range of outpatient therapy and home health services in Florida, Arizona and Texas. As of July 31, 2014, Emeritus owned 182 communities and leased 311 communities. On April 23, 2014, we entered into a Master Contribution and Transactions Agreement with HCP. We and HCP will enter into two joint venture transactions and amend the terms of certain of our existing agreements with HCP and/or certain of its affiliates, and certain existing agreements between Emeritus and HCP and/or certain of their respective affiliates. See note 13.

During the six months ended June 30, 2014, we continued to make progress in implementing our long-term growth strategy. Our primary long-term growth objectives are to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income primarily through a combination of: (i) organic growth in our core business, including expense control and the realization of economies of scale; (ii) growth through strategic capital allocation; (iii) growth through development of a market leading Brookdale brand; and (iv) growth through innovation of product offerings, including our Brookdale Ancillary Services programs.

The table below presents a summary of our operating results and certain other financial metrics for the three and six months ended June 30, 2014 and 2013 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Three Months Ended June 30,		Increase (Decrease)	
	2014	2013	Amount	Percent
Total revenues	$748.4	$716.5	$31.9	4.5 %
Net loss	$(3.3)	$(5.2)	$(1.9)	(36.6 %)
Adjusted EBITDA	$117.3	$113.8	$3.5	3.1 %
Cash From Facility Operations	$76.7	$71.2	$5.5	7.7 %
Facility Operating Income	$210.6	$197.9	$12.7	6.4 %

	Six Months Ended June 30,		Increase (Decrease)	
	2014	2013	Amount	Percent
Total revenues	$1,495.7	$1,428.7	$66.9	4.7 %
Net loss	$(5.6)	$(1.6)	$4.0	240.7 %
Adjusted EBITDA	$225.4	$224.1	$1.2	0.5 %
Cash From Facility Operations	$144.1	$139.0	$5.1	3.7 %
Facility Operating Income	$423.8	$402.1	$21.7	5.4 %

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

During the six months ended June 30, 2014, we experienced an increase in our total revenues, primarily due to increases in average monthly revenue per unit and our ancillary services revenue. Total revenues for the six months ended June 30, 2014 increased to $1.5 billion, an increase of $66.9 million, or 4.7%, over our total revenues for the six months ended June 30, 2013. Resident fees for the six months ended June 30, 2014 increased $58.5 million, or 4.7% from the prior year period. Management fees decreased $0.5 million, or 3.0%, from the prior year period, and reimbursed costs incurred on behalf of managed communities increased $8.9 million, or 5.3%.

The increase in resident fees during the six months ended June 30, 2014 was primarily a result of a 3.0% increase in senior housing average monthly revenue per unit compared to the prior year period, an increase in revenues from our ancillary services programs, and the inclusion of revenue from communities acquired and new units added to existing communities since the end of the second quarter of 2013. Our weighted average occupancy rate for the six months ended June 30, 2014 and 2013 was 88.3% and 88.4%, respectively. The increase in our senior housing average monthly revenue per unit was a result of improving fundamentals, execution by our field organization and sales and marketing team and the benefit of the capital we have invested and continue to spend on our communities.

During the six months ended June 30, 2014, we continued efforts to control our cost growth. Facility operating expenses for the six months ended June 30, 2014 were $865.3 million, an increase of $36.3 million, or 4.4%, as compared to the six months ended June 30, 2013.

Net loss for the six months ended June 30, 2014 was $5.6 million, or $(0.04) per basic and diluted common share, compared to a net loss of $1.6 million, or $(0.01) per basic and diluted common share, for the six months ended June 30, 2013.

During the six months ended June 30, 2014, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 0.5%, 3.7% and 5.4%, respectively, when compared to the six months ended June 30, 2013. Adjusted EBITDA and CFFO include integration, transaction-related and electronic medical records ("EMR") roll-out costs of $23.7 million for the six months ended June 30, 2014 and $5.7 million for the six months ended June 30, 2013.

Consolidated Results of Operations

Three Months Ended June 30, 2014 and 2013

The following table sets forth, for the periods indicated, statement of operations items and the amount and percentage of increase or decrease of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

During the six months ended June 30, 2014, two communities moved between segments to more accurately reflect the underlying product offering of the communities. The movement did not change the Company's reportable segments, but it did impact the revenues, expenses and operating data reported within the Retirement Centers and Assisted Living segments. Revenue, expenses and operating data for the three months ended June 30, 2013 have not been recast.

(dollars in thousands, except average monthly revenue per unit)	Three Months Ended June 30,				
	2014	2013	Increase (Decrease)	% Increase (Decrease)	
Statement of Operations Data:					
Revenue					
Resident fees					
Retirement Centers	$133,441	$130,170	$ 3,271	2.5	%
Assisted Living	277,230	260,497	16,733	6.4	%
CCRCs – Rental	98,212	97,562	650		