

Brookdale Senior Living Inc.
Form 10-Q
November 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 001-32641

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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

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

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 November 4, 2013, 124,285,473 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

TABLE OF CONTENTS
BROOKDALE SENIOR LIVING INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	<u>PAGE</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets -</u> <u>As of September 30, 2013 (Unaudited) and December 31, 2012</u>	4
<u>Condensed Consolidated Statements of Operations -</u> <u>Three and nine months ended September 30, 2013 and 2012 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income -</u> <u>Three and nine months ended September 30, 2013 and 2012 (Unaudited)</u>	6
<u>Condensed Consolidated Statement of Stockholders' Equity -</u> <u>Nine months ended September 30, 2013 (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows -</u> <u>Nine months ended September 30, 2013 and 2012 (Unaudited)</u>	8
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	46
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	46
<u>Item 6. Exhibits</u>	46
<u>Signatures</u>	47

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$42,690	\$69,240
Cash and escrow deposits — restricted	43,231	43,096
Accounts receivable, net	108,720	100,401
Deferred tax asset	13,377	13,377
Prepaid expenses and other current assets, net	85,860	82,924
Total current assets	293,878	309,038
Property, plant and equipment and leasehold intangibles, net	3,845,741	3,879,977
Cash and escrow deposits — restricted	60,146	62,767
Investment in unconsolidated ventures	46,050	31,386
Goodwill	109,553	109,553
Other intangible assets, net	159,954	159,942
Other assets, net	128,909	113,315
Total assets	\$4,644,231	\$4,665,978
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$72,172	\$509,543
Trade accounts payable	46,873	43,184
Accrued expenses	216,919	200,895
Refundable entrance fees and deferred revenue	376,161	370,755
Tenant security deposits	5,245	6,521
Total current liabilities	717,370	1,130,898
Long-term debt, less current portion	2,490,109	2,089,826
Line of credit	45,000	80,000
Deferred entrance fee revenue	85,507	79,010
Deferred liabilities	155,346	150,788
Deferred tax liability	96,187	96,187
Other liabilities	38,175	42,283
Total liabilities	3,627,694	3,668,992
Stockholders' Equity		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at September 30, 2013 and December 31, 2012; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized at September 30, 2013 and December 31, 2012; 130,135,841 and 129,117,946 shares issued and 127,707,440 and 126,689,545 shares outstanding (including 3,422,273 and 3,951,950 unvested restricted	1,277	1,267

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

shares), respectively

Additional paid-in-capital	2,020,096	1,997,946
Treasury stock, at cost; 2,428,401 shares at September 30, 2013 and December 31, 2012	(46,800)	(46,800)
Accumulated deficit	(958,036)	(955,427)
Total stockholders' equity	1,016,537	996,986
Total liabilities and stockholders' equity	\$4,644,231	\$4,665,978

See accompanying notes to condensed consolidated financial statements.

4

TABLE OF CONTENTS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenue				
Resident fees	\$631,144	\$605,530	\$1,876,452	\$1,804,129
Management fees	7,622	7,407	22,975	22,350
Reimbursed costs incurred on behalf of managed communities	90,233	83,208	258,306	242,847
Total revenue	728,999	696,145	2,157,733	2,069,326
Expense				
Facility operating expense (excluding depreciation and amortization of \$60,896, \$56,956, \$177,595 and \$172,982, respectively)	420,579	411,467	1,249,609	1,213,751
General and administrative expense (including non-cash stock-based compensation expense of \$6,894, \$6,021, \$20,776 and \$19,185, respectively)	45,824	43,158	138,470	134,202
Facility lease expense	69,232	71,167	207,028	213,240
Depreciation and amortization	68,644	62,876	200,557	189,781
Asset impairment	504	—	2,658	8,329
Loss on acquisition	—	—	—	636
Gain on facility lease termination	—	—	—	(2,780)
Costs incurred on behalf of managed communities	90,233	83,208	258,306	242,847
Total operating expense	695,016	671,876	2,056,628	2,000,006
Income from operations	33,983	24,269	101,105	69,320
Interest income	472	676	1,027	2,220
Interest expense:				
Debt	(29,642)	(32,262)	(90,456)	(96,743)
Amortization of deferred financing costs and debt discount	(4,100)	(4,543)	(13,017)	(13,602)
Change in fair value of derivatives and amortization	(1,377)	140	594	(371)
Loss on extinguishment of debt	(53)	—	(946)	(221)
Equity in earnings (loss) of unconsolidated ventures	431	(249)	991	(211)
Other non-operating income	279	500	1,365	392
(Loss) income before income taxes	(7)	(11,469)	663	(39,216)
Provision for income taxes	(960)	(747)	(3,272)	(2,559)
Net loss	\$(967)	\$(12,216)	\$(2,609)	\$(41,775)
Basic and diluted net loss per share	\$(0.01)	\$(0.10)	\$(0.02)	\$(0.34)
Weighted average shares used in computing basic and diluted net loss per share	124,128	122,493	123,457	121,784

See accompanying notes to condensed consolidated financial statements.

5

TABLE OF CONTENTS

BROOKDALE SENIOR LIVING INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited, in thousands)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012		2012	
Net loss	\$(967)	\$(12,216)	\$(2,609)	\$(41,775)
Other comprehensive income:				
Unrealized gain on marketable securities - restricted	—	980	—	1,818
Other	—	—	—	61
Total other comprehensive income, net of tax	—	980	—	1,879
Comprehensive loss	\$(967)	\$(11,236)	\$(2,609)	\$(39,896)

See accompanying notes to condensed consolidated financial statements.

6

TABLE OF CONTENTS

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

	Common Stock		Additional Paid-In- Capital	Treasury Stock	Accumulated Deficit	Total
	Shares	Amount				
Balances at January 1, 2013 as previously reported	126,689	\$ 1,267	\$ 1,997,946	\$(46,800)	\$ (949,696)	\$ 1,002,717
Retrospective adjustment for adoption of accounting policy					(5,731)	(5,731)
Balances at January 1, 2013 as adjusted	126,689	1,267	1,997,946	(46,800)	(955,427)	996,986
Compensation expense related to restricted stock grants			20,776			20,776
Net loss					(2,609)	(2,609)
Issuance of common stock under Associate Stock Purchase Plan	47		1,135			1,135
Restricted stock, net	971	10				10
Other			239			239
Balances at September 30, 2013	127,707	\$ 1,277	\$ 2,020,096	\$(46,800)	\$ (958,036)	\$ 1,016,537

See accompanying notes to condensed consolidated financial statements.

TABLE OF CONTENTS

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

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities		
Net loss	\$(2,609)	\$(41,775)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	946	221
Depreciation and amortization	213,574	203,383
Asset impairment	2,658	8,329
Equity in (earnings) loss of unconsolidated ventures	(991)	211
Distributions from unconsolidated ventures from cumulative share of net earnings	2,089	1,435
Amortization of deferred gain	(3,279)	(3,279)
Amortization of entrance fees	(21,178)	(18,835)
Proceeds from deferred entrance fee revenue	30,584	30,303
Deferred income tax benefit		(435)
Change in deferred lease liability	2,250	5,324
Change in fair value of derivatives and amortization	(594)	371
(Gain) loss on sale of assets	(876)	245
Loss on acquisition		636
Gain on facility lease termination		(2,780)
Non-cash stock-based compensation	20,776	19,185
Other		(487)
Changes in operating assets and liabilities:		
Accounts receivable, net	(9,482)	(8,092)
Prepaid expenses and other assets, net	(2,805)	1,653
Accounts payable and accrued expenses	20,595	9,552
Tenant refundable fees and security deposits	(828)	(1,556)
Deferred revenue	(1,755)	4,369
Net cash provided by operating activities	249,075	207,978
Cash Flows from Investing Activities		
Increase in lease security deposits and lease acquisition deposits, net	(2,046)	(6,767)
Decrease (increase) in cash and escrow deposits — restricted	2,484	(2,402)
Purchase of marketable securities — restricted		(1,453)
Additions to property, plant and equipment and leasehold intangibles, net	(161,522)	(151,381)
Acquisition of assets, net of related payables and cash received	(7,394)	(111,308)
Payments on (issuance of) notes receivable, net	95	(591)
Investment in unconsolidated ventures	(17,172)	(571)
Distributions received from unconsolidated ventures	100	256
Proceeds from sale of assets, net	7,554	325
Other		487
Net cash used in investing activities	(177,901)	(273,405)
Cash Flows from Financing Activities		
Proceeds from debt	597,852	193,607

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

Repayment of debt and capital lease obligations	(651,741)	(136,957)
Proceeds from line of credit	320,000	280,000
Repayment of line of credit	(355,000)	(265,000)
Payment of financing costs, net of related payables	(11,194)	(2,810)
Refundable entrance fees:		
Proceeds from refundable entrance fees	29,265	29,512
Refunds of entrance fees	(24,504)	(19,555)
Cash portion of loss on extinguishment of debt	(502)	(118)
Purchase of derivatives and payment of swap termination	(2,863)	(1,289)
Other	963	(295)
Net cash (used in) provided by financing activities	(97,724)	77,095
Net (decrease) increase in cash and cash equivalents	(26,550)	11,668
Cash and cash equivalents at beginning of period	69,240	30,836
Cash and cash equivalents at end of period	\$42,690	\$42,504

See accompanying notes to condensed consolidated financial statements.

TABLE OF CONTENTS

BROOKDALE SENIOR LIVING INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Revenue Recognition

Resident Fees

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

Entrance Fees

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

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

9

TABLE OF CONTENTS

Management Fees

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

Reimbursed Costs Incurred on Behalf of Managed Communities

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

Fair Value of Financial Instruments

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

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

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

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

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

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

Self-Insurance Liability Accruals

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

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

10

TABLE OF CONTENTS

Cumulative Effect Adjustment

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

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

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

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

TABLE OF CONTENTS

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

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

	Three Months Ended September 30, 2012		
	As		As
	Reported	Adjustment	Adjusted
Condensed Consolidated Statements of Operations			
Resident fees	\$605,867	\$ (337)	\$605,530
Total revenue	696,482	(337)	696,145
Loss before income taxes	(11,132)	(337)	(11,469)
Provision for income taxes	(878)	131	(747)
Net loss	(12,010)	(206)	(12,216)
Basic and diluted net loss per share	(0.10)	—	(0.10)
Condensed Consolidated Statements of Cash Flows			
Net loss	\$(12,010)	\$ (206)	\$(12,216)
Amortization of entrance fees	(19,846)	1,011	(18,835)
Deferred income tax benefit	(41)	(394)	(435)
Condensed Consolidated Statements of Operations			
Resident fees	\$1,805,140	\$ (1,011)	\$1,804,129
Total revenue	2,070,337	(1,011)	2,069,326
Loss before income taxes	(38,205)	(1,011)	(39,216)
Provision for income taxes	(2,953)	394	(2,559)
Net loss	(41,158)	(617)	(41,775)
Basic and diluted net loss per share	(0.34)	—	(0.34)
Condensed Consolidated Statements of Cash Flows			
Net loss	\$(41,158)	\$ (617)	\$(41,775)
Amortization of entrance fees	(19,846)	1,011	(18,835)
Deferred income tax benefit	(41)	(394)	(435)

TABLE OF CONTENTS

New Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 changes the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance in ASU 2013-11 is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not believe that the adoption of ASU 2013-11 will have a material impact on the consolidated financial statements or disclosures.

Reclassifications

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

3. Earnings Per Share

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

During the three and nine months ended September 30, 2013 and 2012, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock and restricted stock unit awards and convertible debt instruments and warrants were anti-dilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit awards excluded from the calculations of diluted net loss per share were 3.6 million and 4.2 million for the three months ended September 30, 2013 and 2012, respectively, and 4.1 million and 4.7 million for the nine months ended September 30, 2013 and 2012, respectively.

4. Acquisitions and Dispositions

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

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

Living segment.

During the nine months ended September 30, 2013, the Company purchased three home health agencies for an aggregate purchase price of approximately \$2.6 million. The purchase price of the acquisitions has been ascribed to an indefinite useful life intangible asset and recorded on the condensed consolidated balance sheet under other intangible assets, net.

13

TABLE OF CONTENTS

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

5. Stock-Based Compensation

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

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

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

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

	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2013	1,036	\$25.32 – \$27.36	\$27,858
Three months ended June 30, 2013	156	\$26.85 – \$27.50	\$4,216
Three months ended September 30, 2013	50	\$26.84 – \$29.20	\$1,445

6. Goodwill and Other Intangible Assets, Net

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

	September 30, 2013		December 31, 2012	
	Gross Carrying Amount	Impairment and Other Charges	Gross Carrying Amount	Impairment and Other Charges
		Net		Net
Retirement Centers	\$7,642			