

AMERICAN RETIREMENT CORP

Form 424B3

January 19, 2006

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to the common stock has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-116410

SUBJECT TO COMPLETION, DATED JANUARY 19, 2006

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 29, 2004)

2,000,000 Shares

Common Stock

We are offering 2,000,000 shares of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol ACR. On January 18, 2006, the last reported sale price of our common stock as reported by the New York Stock Exchange was \$27.63 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-2 of this prospectus supplement and page 1 of the accompanying prospectus.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

We have granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of our common stock on the same terms and conditions set forth above to cover over-allotments, if any.

The underwriter expects to deliver the shares on or about January , 2006.

Jefferies & Company

The date of this prospectus supplement is January , 2006.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer of these securities in any state where the offer is not permitted. You should assume that the information in this prospectus supplement and the accompanying prospectus, as well as the information we have previously filed with the Securities and Exchange Commission and incorporated by reference in this prospectus supplement and the accompanying prospectus, is accurate only as of the date of the documents containing the information.

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THE COMPANY

American Retirement Corporation is one of the largest operators of senior living communities in the United States. We are a senior living and health care services provider offering a broad range of care and services to seniors, including independent living, assisted living, skilled nursing and therapy services. The senior living industry is a growing and highly fragmented industry. We believe we are one of the few national operators providing a range of service offerings and price levels across multiple communities. At December 31, 2005, we operated 76 senior living communities in 19 states, with an aggregate unit capacity of approximately 14,300 units and resident capacity of approximately 16,000. At December 31, 2005, we owned 27 communities (including nine communities in joint ventures), leased 43 communities, and managed six communities pursuant to management agreements. Our revenues for the nine months ended September 30, 2005 were \$365.4 million, of which 83.6% was from private pay sources, 14.4% was from Medicare and 2.0% was from Medicaid.

THE OFFERING

Common stock offered by us 2,000,000 shares

Common stock to be outstanding
after this offering 33,751,575 shares

Use of proceeds We intend to use the net proceeds from this offering of approximately \$51.7 million to repay outstanding debt, to fund possible future acquisitions, to fund expansion activity, and for general corporate purposes, including working capital. See Use of Proceeds.

Risk factors You should carefully read and consider the information set forth in Risk Factors beginning on page S-2 of this prospectus supplement and Risk Factors beginning on page 1 of the accompanying prospectus before investing in our common stock.

NYSE symbol ACR

The number of shares to be outstanding after the offering is based on the number of shares outstanding as of December 31, 2005 and:

includes 554,336 shares of restricted stock issued to employees under our Stock Incentive Plan that were not vested as of December 31, 2005;

excludes 1,942,286 shares of common stock issuable at December 31, 2005 upon the exercise of outstanding stock options under our Stock Incentive Plan at a weighted average exercise price of \$6.44 per share;

excludes 564,591 shares reserved for future issuance under our Stock Incentive Plan at December 31, 2005; and

excludes 418,078 shares reserved for future issuance under our Associate Stock Purchase Plan at December 31, 2005.

The number of shares to be outstanding after the offering and the estimated net proceeds from the offering assumes that the underwriter's over-allotment option to purchase up to an additional 300,000 shares of our common stock is not exercised.

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RISK FACTORS

You should carefully consider the risks described below, as well as other information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus, before buying securities in this offering. If any of the events described below occurs, our business, financial condition or results of operations could be materially harmed, the trading price of our securities could decline and you may lose all or part of your investment.

Our failure to generate cash flow sufficient to cover our substantial debt and operating lease obligations could result in defaults under our debt or lease agreements.

We have substantial debt and lease obligations. Our cash needs for our lease and interest payments and principal payments on outstanding debt will remain high for the foreseeable future. At September 30, 2005, we had long-term debt, including current portion, of \$322.8 million. During the twelve months ending September 30, 2006, we are obligated to pay minimum rental obligations of approximately \$67.2 million under long-term operating leases and have current scheduled debt principal payments of \$24.5 million. At September 30, 2005, we had \$34.0 million of unrestricted cash and cash equivalents, \$30.0 million of restricted cash and \$95.8 million of negative working capital. For the nine months ended September 30, 2005, our net cash provided by operations was \$43.1 million. There can be no assurance that we will be able to generate sufficient cash flows from operations and entrance fees to meet required interest, principal, and lease payments in future periods.

Certain of our debt agreements and leases contain various financial and other restrictive covenants, which may limit our flexibility in operating our business. Any payment or other default with respect to such obligations could cause lenders to cease funding and accelerate payment obligations or to foreclose upon our communities securing such indebtedness or, in the case of any of our operating leases, terminate the lease, with a consequent loss of income and asset value to us. Furthermore, because of cross-default and cross-collateralization provisions in certain of our debt instruments and leases, a default by us on one of our obligations could result in default or acceleration of many of our other obligations. Failure to remain in compliance with the covenants and obligations contained in our debt instruments and leases could have a material adverse impact on us.

Our liability insurance may not be adequate to cover claims that may arise against us.

The delivery of personal and health care services entails an inherent risk of liability. In recent years, participants in the senior living and health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. We currently maintain general liability and professional medical malpractice insurance policies for our owned, leased and certain of our managed communities under a master insurance program. The number of insurance companies willing to provide general liability and professional liability insurance for the nursing and assisted living industry is limited and the premiums and deductibles associated with such insurance have risen dramatically in recent years. We are largely self-insured for typical claims. In response to these conditions, we have significantly increased the staff and resources involved in quality assurance, compliance and risk management during the past several years, and have also modified our insurance programs.

We cannot assure you that our current level of accruals will be adequate to cover the actual liabilities that we may ultimately incur. We also cannot assure you that a claim in excess of our insurance coverage limits will not arise. A claim against us that is not covered by, or is in excess of, our coverage limits could have a material adverse effect upon us. Furthermore, we cannot assure you that we will be able to obtain adequate liability insurance in the future or that, if such insurance is available, it will be available on acceptable terms.

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We rely on reimbursement from governmental programs for a portion of our revenues, and are subject to changes in reimbursement levels, including recently effective limits on reimbursement for certain therapy services, which could adversely affect our results of operations and cash flow.

We rely on reimbursement from governmental programs for a portion of our revenues, and we cannot assure you that reimbursement levels will not decrease in the future, which could adversely affect our results of operations and cash flow. For the nine months ended September 30, 2005, we derived 14.4% of our revenues from Medicare and 2.0% from Medicaid. Certain per person annual limits on therapy services, which were temporarily effective beginning in September 2003 before being deferred, became effective again as of January 2006. We are awaiting final resolution of the legislative process regarding various proposals relating to these reimbursement caps on Medicare Part B therapy services, as well as related regulatory and administrative procedures. If the currently effective limits on reimbursement for therapy services remain in place, those limits will negatively affect certain portions of our therapy services revenues and the profitability of those services. There continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that will limit payments to healthcare providers in the future. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

We may be adversely affected by the limited availability of management, nursing and other personnel for our communities and by increased labor costs.

We compete with other providers of senior living and health care services with respect to attracting and retaining qualified management personnel responsible for the day-to-day operations of each of our communities and skilled technical personnel responsible for providing resident care and therapy services. In certain markets, a shortage of nurses, therapists or trained personnel has required us to enhance our wage and benefits package in order to compete in the hiring and retention of such personnel or to hire more expensive temporary personnel. We are also heavily dependent on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. At times, we have experienced a competitive labor market, periodic shortages of qualified workers in certain markets, and wage rate increases for certain of our employees. We cannot be sure that our labor costs will not increase, or that, if they do increase, they can be matched by corresponding increases in rates charged to residents. If we are unable to attract and retain qualified management and staff personnel, control our labor costs, or pass on increased labor costs to residents through rate increases, our business, financial condition, and results of operations will be adversely affected.

We may be adversely affected by rising interest rates.

Future indebtedness, from commercial banks or otherwise, and lease obligations, including those related to communities leased from REITs (real estate investment trusts), are expected to be based on interest rates prevailing at the time such debt and lease arrangements are obtained. As of September 30, 2005, we had \$249.2 million of fixed rate debt and \$73.6 million of variable rate debt outstanding. Increases in prevailing interest rates would increase our interest obligations with respect to a substantial portion of our variable rate debt, and would likely increase our interest and lease payment obligations on our future indebtedness and leases. An increase in prevailing interest rates, if material, could have a material adverse effect on our business, financial condition, and results of operations.

If we are unable to refinance our debt obligations, our business could be adversely affected.

We may need to refinance certain future debt maturities as they come due. Our ability to refinance debt obligations may be impacted by our operational results, industry and economic conditions, capital market conditions, and other factors that may not be within our control. Our inability to refinance various debt maturities, including construction loans, as they come due in future years could have a material adverse impact on us and our financial condition.

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

We are currently working on projects that will expand several of our existing senior living communities over the next several years and develop certain new senior living communities. These projects are in various stages of development and are subject to a number of factors over which we have little or no control. Such factors include the necessity of arranging separate leases, mortgage loans or other financings to provide the capital required to complete these projects; difficulties or delays in obtaining zoning, land use, building, occupancy, licensing, certificate of need and other required governmental permits and approvals; failure to complete construction of the projects on budget and on schedule; failure of third-party contractors and subcontractors to perform under their contracts; shortages of labor or materials that could delay projects or make them more expensive; adverse weather conditions that could delay completion of projects; increased costs resulting from general economic conditions or increases in the cost of materials; and increased costs as a result of changes in laws and regulations.

We cannot assure you that we will elect to undertake or complete all of our proposed expansion and development projects, or that we will not experience delays in completing those projects. In addition, we may incur substantial costs prior to achieving stabilized occupancy for each such project and cannot assure you that these costs will not be greater than we have anticipated. We also cannot assure you that any of our development projects will be economically successful. Our failure to achieve our expansion and development plans could adversely impact our growth objectives, and our anticipated revenues and results of operations.

The senior living industry is very competitive and has been subject to periodic oversupply conditions, which could have a material adverse effect on our revenues, earnings and expansion plans.

The senior living industry is highly competitive. We compete with other companies providing independent living, assisted living, skilled nursing, therapy and other similar services and care alternatives. We expect that there will be competition from existing competitors and new market entrants, some of whom may have substantially greater financial resources than we do. In addition, some of our competitors operate on a not-for-profit basis or as charitable organizations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which is available to us. Furthermore, if the development of new senior living communities outpaces the demand for those communities in the markets in which we have senior living communities, those markets may become saturated or over-built. Regulation of the independent and assisted living industry, which represents a substantial portion of our senior living services, currently is not substantial and does not represent a significant barrier to entry. Consequently, the development of new senior living communities could outpace demand. Increased competition for residents could also require us to undertake unbudgeted capital improvements or to lower our rates. An oversupply of senior living communities in our markets or increased competition could adversely affect our business and results of operations.

We may be adversely affected by the loss of our key officers or associates.

We rely upon the services of our executive officers. The loss of our executive officers and the inability to attract and retain qualified management personnel could affect our ability to manage our business and could adversely affect our business, financial condition and results of operations.

We may be adversely affected by the termination of residency and care agreements with our residents.

Our residency and care agreements with our independent living residents (other than entrance fee contracts) are generally for a term of one year (terminable by the resident upon 30 to 60 days written notice). Although most residents remain for many years, we do not contract with residents for longer periods of time. If a large number of residents elected to terminate their resident agreements at or around the same time, our revenues and earnings could be adversely affected. Although most entrance fee residents remain for many years, our entrance fee agreements are also terminable upon death or with thirty days notice. If a large number of entrance fee agreements were terminated around the same time, triggering certain refund liabilities, and we were unable to resell the apartment units quickly or at reasonable price levels, our cash flows could be adversely affected.

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We are dependent upon attracting residents who have sufficient resources to pay for our services.

Circumstances that adversely affect the ability of our residents to pay for our services could have a material adverse effect on us.

Approximately 85.1% and 83.6% of our total revenues for the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively, were attributable to private pay sources. We expect to continue to rely primarily on the ability of residents to pay for our services from their personal or family financial resources and long-term care insurance. Future economic or investment market conditions or other circumstances that adversely affect the ability of seniors to pay for our services could have a material adverse effect on our business, financial condition, and results of operations.

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

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

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

We are susceptible to risks associated with the concentration of our facilities in certain geographic areas.

Part of our business strategy is to own, lease or manage senior living communities in concentrated geographic service areas. We have a large concentration of communities in Florida, Texas, Arizona and Colorado, among other areas. Accordingly, our operating results may be adversely affected by various regional and local factors, including economic conditions, real estate market conditions, competitive conditions, weather conditions and applicable laws and regulations.

We have incurred losses in recent years and have only recently been profitable.

We experienced losses from operations during the past several years, as recently as 2004. We have been profitable since the quarter ended December 31, 2004 as a result of various factors, including increased occupancy at our communities, increased revenue per unit from rate increases and additional fees and services, and reduced debt service costs. Our future earnings and cash flow from operations may be negatively impacted by various operating and market factors, many of which are beyond our control, and there can be no assurance that recent trends will continue.

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We may not be able to successfully integrate acquired communities and new managed communities into our operations, which could adversely affect our business, financial condition and results of operations.

During the past year, we have completed several acquisitions of retirement communities and have entered into agreements to manage other communities. We also expect to complete acquisitions and enter into new management agreements in the future. Achieving the expected benefits of these acquisitions and new management agreements will depend in large part on our completion of the integration of the operations and personnel of the new communities in a timely and efficient manner. If we cannot overcome the challenges we face in completing the integration, our ability to effectively and profitably manage the new communities could suffer. Moreover, the integration process itself may be disruptive to our business, as it will divert the attention of management from its normal operational responsibilities and duties. We cannot offer any assurance that we will be able to successfully integrate the new communities operations or personnel or realize the anticipated benefits of the acquisitions and new management agreements. Our failure to successfully complete the integration could harm our business, financial condition and results of operations. **We are susceptible to risks associated with government regulation of the healthcare industry and the burdens of compliance with such regulations.**

Federal and state governments regulate various aspects of our business. The development and operation of senior living communities and the provision of health care services are subject to federal, state, and local licensure, certification, and inspection laws. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new patients, restrictions on operating or marketing entrance fee communities, suspension or decertification from Medicare, Medicaid, or other state or federal reimbursement programs, restrictions on our ability to acquire new communities or expand existing communities, or revocation of a community's license. We cannot assure you that we will not be subject to penalties in the future, or that federal, state, or local governments will not impose restrictions on our activities that could materially adversely affect our business, financial condition, or results of operations.

Various states, including several of the states in which we currently operate, control the supply of licensed skilled nursing beds through certificate of need (CON) or other programs. In those states, approval is required for the construction of certain types of new health care communities, the addition of licensed beds and some capital expenditures at those communities. To the extent that a CON or other similar approval is required for the acquisition or construction of new communities or the expansion of the number of licensed beds, services, or existing communities, we could be adversely affected by our failure or inability to obtain that approval, changes in the standards applicable for that approval, and possible delays and expenses associated with obtaining that approval.

Federal and state anti-remuneration laws, such as anti-kickback laws, govern some financial arrangements among health care providers and others who may be in a position to refer or recommend patients to those providers. These laws prohibit, among other things, some direct and indirect payments that are intended to induce the referral of patients to, the arranging for services by, or the recommending of a particular provider of health care items or services. Federal anti-kickback laws have been broadly interpreted to apply to some contractual relationships between health care providers and sources of patient referral. Similar state laws vary, are sometimes vague, and seldom have been interpreted by courts or regulatory agencies. Violation of these laws can result in loss of licensure, substantial civil and criminal penalties and exclusion of health care providers or suppliers from participation in Medicare and Medicaid programs. There can be no assurance that those laws will be interpreted in a manner consistent with our practices.

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist that also may require modifications to existing and planned communities to create access to the properties by disabled persons. Although we believe that our communities are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs

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would be incurred by us. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, among other things, established standards for the use of and access to health information. Known as the administrative simplification requirements, these provisions, as implemented by regulations published by the United States Department of Health and Human Services, established among other things, standards for the security and privacy of health information. Additionally, the rules provide for the use of uniform standard codes for electronic transactions and require the use of uniform employer identification codes. Penalties for violations can range from civil fines to criminal sanctions for the most serious offenses. Compliance with the rules was phased in through April 2005. These rules are complicated, and there are still a number of unanswered questions with respect to the extent and manner in which the HIPAA rules apply to businesses such as those operated by us.

We may be subject to liability for environmental damages.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean up costs incurred by those parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner knew of or caused the presence of the contaminants, and liability under these laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The costs of investigation, remediation or removal of the substances may be substantial, and the presence of the substances, or the failure to properly remediate the property, may adversely affect the owner's ability to sell or lease the property or to borrow using the property as collateral. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the costs of removal or remediation of the substances at the disposal or treatment facility, whether or not the facility is owned or operated by the person. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. If we become subject to any of these claims, the costs involved could be significant and could have a material adverse effect on our business, financial condition and results of operations.

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

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

We have broad discretion with respect to the application of the net proceeds from this offering and may not use these funds in a manner that you would approve.

We will have broad discretion as to the application of the net proceeds from this offering. We intend to use the net proceeds of this offering to repay certain indebtedness, to fund possible future acquisitions, to fund expansion activity, and for general corporate purposes, including working capital. We cannot assure you that we will use these funds in a manner that you would approve.

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The value of our common stock may be adversely affected by our shareholder rights plan, certain provisions of our charter and bylaws and certain anti-takeover provisions of Tennessee law.

We have a shareholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the shareholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. Our board of directors also has the authority, without action by our shareholders, to issue up to 5,000,000 shares of preferred stock and to fix the rights and preferences of such shares. This authority, together with certain other provisions of our charter (including provisions that implement staggered terms for directors, limit shareholder ability to call a shareholders meeting or to remove directors, and require a supermajority vote to amend certain provisions of the charter), may delay, deter, or prevent a change in control of the company. In addition, as a Tennessee corporation, we are subject to the provisions of the Tennessee Business Combination Act and the Tennessee Greenmail Act, each of which may be deemed to have anti-takeover effects and may delay, deter, or prevent a takeover attempt that might be considered by the shareholders to be in their best interests.

The price of our common stock is subject to significant fluctuations.

The market price of our common stock is subject to significant fluctuations in response to various factors and events, including the liquidity of the market for our common stock, variations in our operating results, and new statutes or regulations or changes in the interpretation of existing statutes or regulations affecting the health care industry in general or the senior living industry in particular. In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These market fluctuations also may adversely affect the market price of the common stock offered pursuant to this prospectus supplement and the accompanying prospectus.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words anticipate, will, believe, estimate, expect, intend, seek, or similar expressions. These forward-looking statements may address, among other things, the anticipated effects of the offering of the securities hereunder; our operating and growth strategy; projections of revenue, income or loss, capital expenditures, interest rates and future operations; our anticipated improvement in operations and anticipated or expected cash flow; our expectations regarding the mark-to-market effect of resident turnover and the incremental operating margin from increasing occupancy at our free-standing assisted living communities; our expectations regarding trends in the senior living industry; our liquidity and financing needs; our expectations regarding future entrance fee sales or increasing occupancy at our retirement centers or free-standing assisted living communities; our alternatives for raising additional capital and satisfying our periodic debt and lease financing obligations; the availability of insurance programs; and our expectations regarding our ability to successfully enter into and complete acquisitions and development projects. These forward-looking statements are subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements we make or incorporate by reference in this prospectus supplement or the accompanying prospectus include, without limitation:

the risks associated with our financial condition and the fact that we have substantial debt and lease obligations;

the risk that we will be unable to obtain liability insurance in the future or that the costs associated with such insurance or related losses (including the costs of deductibles) will be prohibitive;

the risk of adverse changes in governmental reimbursement programs, including caps on certain therapy service reimbursements;

the risk of rising interest rates;

the risk that we will be unable to improve operating results, sell our entrance fee units or increase our cash flow or generate expected levels of cash;

the risk that alternative or replacement financing sources will not be available to us;

the risks associated with market conditions for the senior living industry;

the fact that we have generated losses prior to the fourth quarter of 2004;

the risk that we will be unable to successfully acquire and integrate acquired communities and new managed communities into our operations;

the likelihood of further and tighter governmental regulation;

the risks and uncertainties associated with complying with new and evolving standards of corporate governance and regulatory requirements, as well as the costs and management time associated with these activities; and

those risks described under Risk Factors in this prospectus supplement and the accompanying prospectus and in the documents incorporated or deemed to be incorporated by reference in this prospectus supplement and the

accompanying prospectus.

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USE OF PROCEEDS

Based on an estimated offering price per share of \$27.63, we expect to receive net proceeds of approximately \$51.7 million from this offering, or approximately \$59.5 million if the underwriter's over-allotment option is exercised in full, in each case after deducting the underwriting discounts and commissions and our estimated offering expenses.

We intend to use the net proceeds from this offering to repay outstanding debt, to fund possible future acquisitions, to fund expansion activity, and for general corporate purposes, including working capital.

The identified indebtedness to be repaid from the net proceeds of this offering totals \$29.0 million. This amount is comprised of:

A \$15.5 million mortgage loan that bears interest at 9.25%, is due September 16, 2016 and is secured by a first mortgage on a retirement center located in Seminole, Florida;

A \$9.0 million loan that bears interest at a floating rate (7.33% at December 31, 2005), is due April 1, 2006 and is secured by a first mortgage on a free-standing assisted living community in San Antonio, Texas; and

A \$4.5 million mortgage loan that bears interest at a floating rate (6.81% at December 31, 2005), is due January 1, 2007 and is secured by a first mortgage on a free-standing assisted living community in Cleveland, Ohio.

We have from time to time engaged in, and expect to continue to pursue, discussions with respect to possible business acquisitions. While we have no present commitments or agreements with respect to any other business acquisitions, we frequently investigate, and engage in discussions relating to, acquisitions of all types of senior living communities and of companies engaged in businesses that we believe will complement our existing business.

Our management will have considerable discretion in the application of the net proceeds of this offering and may spend the net proceeds in a manner and at times other than as set forth above. As a result, you will not have the opportunity, as part of your investment decision, to assess how and when the net proceeds will be used.

Until we use the net proceeds of this offering for the above purposes, we will invest the funds in short-term, investment grade, interest-bearing securities. We cannot predict whether the proceeds invested will yield a favorable return.

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Table of Contents**CAPITALIZATION**

The following table sets forth our cash and restricted cash and capitalization as of September 30, 2005 on an actual basis and on an as adjusted basis to reflect the following transactions as if they had occurred on that date:

the sale of 2,000,000 shares of our common stock in this offering and our receipt of \$51.7 million in estimated net proceeds (based on a public offering price of \$27.63 per share) after deducting the underwriting discounts and commissions and estimated expenses of this offering; and

the application of the estimated net proceeds from this offering to repay a total of \$29.0 million of indebtedness as described in Use of Proceeds.

At September 30, 2005		
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents	\$ 33,952	\$ 56,695
Restricted cash:		
Current portion	19,168	19,168
Long-term portion	10,854	10,854
Total cash and restricted cash	\$ 63,974	\$ 86,717
Long-term debt, including current portion:		
Mortgage notes and other long-term debt, including current portion	\$ 135,671	\$ 106,670
Capital lease financing, including current portion	187,090	187,090
Total long-term debt, including current portion	322,761	293,760
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$.01 per share; 200,000,000 shares authorized; 30,999,452 shares issued and outstanding, actual; 32,999,452 shares issued and outstanding, as adjusted ⁽¹⁾⁽²⁾	313	333
Additional paid-in capital	222,372	274,096
Accumulated deficit	(94,710)	(94,710)
Deferred compensation, restricted stock	(3,179)	(3,179)
Total shareholders' equity	124,796	176,540
Total capitalization	\$ 447,557	\$ 470,300

⁽¹⁾ Excludes 560,333 shares of restricted stock issued to employees under our Stock Incentive Plan that were not vested as of September 30, 2005, 2,102,106 shares of common stock issuable at September 30, 2005 upon the exercise of outstanding stock options under our Stock Incentive Plan at a weighted average exercise price of \$6.01 per share, 595,561 shares reserved for future issuance under our Stock Incentive Plan at September 30, 2005 and 444,352 shares reserved for future issuance under our Associate Stock Purchase Plan at that date.

- (2) We have granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of our common stock, which shares are not included in the as adjusted calculation.

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Table of Contents**DILUTION**

Dilution is the amount by which the portion of the offering price paid by purchasers of our common stock to be sold by us in the offering exceeds the net tangible book value or deficiency per share of our common stock after the offering. Net tangible book value or deficiency per share of our common stock is determined at any date by subtracting our total liabilities from our total assets less our intangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our unaudited net tangible book value, defined as shareholders' equity less goodwill, at September 30, 2005 was approximately \$88.3 million, or approximately \$2.85 per each of the 30,999,452 million shares of common stock then outstanding.

New investors who purchase shares of our common stock from us may suffer an immediate dilution of the difference between the purchase price per share and our net tangible book value per share at the date they purchase. Dilution per share represents the difference between the amount per share paid by the new investors in this offering and the net tangible book value per share immediately afterwards. After giving effect to the sale of the 2,000,000 shares of our common stock in this offering, at an assumed price of \$27.63 per share (receipt of \$51.7 million of estimated net proceeds) after deducting the estimated underwriting discounts and commissions and the estimated offering expenses payable by us, our net tangible book value at September 30, 2005 would have been approximately \$140.1 million or \$4.25 per share. This represents an immediate increase in net tangible book value per share of \$1.40 to existing shareholders and an immediate dilution of \$23.38 per share to new investors purchasing our common stock in this offering.

The following table illustrates this per share dilution to new investors purchasing our common stock in this offering.

Assumed public offering price per share	\$ 27.63
Net tangible book value per share as of September 30, 2005	\$ 2.85
Increase in net tangible book value per share attributable to new investors	\$ 1.40
Net tangible book value per share after this offering	\$ 4.25
Dilution per share to new investors	\$ 23.38

The number of shares outstanding excludes 560,333 shares of restricted stock issued to employees under our Stock Incentive Plan that were not vested as of September 30, 2005. These calculations also assume no exercise of stock options outstanding as of September 30, 2005. As of September 30, 2005, there were options outstanding to purchase an aggregate of 2,102,106 shares of our common stock at a weighted average exercise price of \$6.01 per share. In addition, as of September 30, 2005, 595,561 of our shares of common stock were reserved for future issuance under our Stock Incentive Plan and 444,352 of our shares of common stock were reserved for future issuance under our Associate Stock Purchase Plan. To the extent that, as of September 30, 2005, the shares of restricted stock had vested, the options had been exercised or any additional shares had been issued under our Stock Incentive Plan or Associate Stock Purchase Plan, the dilution to new investors would have been greater. In addition, we have granted the underwriter a 30-day option to purchase up to an additional 300,000 shares of our common stock, which shares are not included in the dilution calculation set forth above.

Table of Contents**UNDERWRITING**

Subject to the terms and conditions stated in the underwriting agreement between us and Jefferies & Company, Inc., the underwriter has agreed to purchase, and we have agreed to sell to the underwriter, 2,000,000 shares of our common stock.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares offered by us is subject to some conditions. The underwriter is obligated to purchase all of the shares offered by us, other than those covered by the over-allotment option described below, if any of the shares are purchased.

The underwriter proposes to offer the shares to the public initially at the public offering price set forth on the cover of this prospectus supplement and to some dealers at that price less a concession not in excess of \$ per share. The underwriter may allow, and those dealers may reallocate, a discount not in excess of \$ per share to other dealers. After this offering, the public offering price, the concession to selected dealers and the reallocation to other dealers may be changed by the underwriter.

We have granted to the underwriter an option, exercisable not later than 30 days after the date of this prospectus supplement, to purchase from us, in whole or in part, up to 300,000 additional shares at the public offering price less the underwriting discounts and commissions set forth on the cover of this prospectus supplement.

The underwriter may exercise that option only to cover over-allotments, if any, made in connection with the sale of the shares of common stock offered by us.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriter by us. Such amounts are shown assuming both no exercise and full exercise of the underwriter's option to purchase 300,000 additional shares.

	No Exercise	Full Exercise
Per share	\$	\$
Total underwriting fees to be paid by us	\$	\$

We estimate that the total expenses of this offering, excluding the underwriting discounts and commissions, will be approximately \$200,000, which will be paid by us.

The underwriter and its affiliates have in the past and may from time to time in the future engage in transactions with us and perform services for us in the ordinary course of their business. We have paid and will pay them customary compensation for these services.

This offering of the shares is made for delivery when, as and if accepted by the underwriter and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The underwriter reserves the right to reject an order for the purchase of shares in whole or in part.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments the underwriter may be required to make in respect of these liabilities.

We and our executive officers and directors have agreed, for a period of 90 days after the date of this prospectus supplement, not to offer, sell, contract to sell, pledge or otherwise dispose of any shares of our common stock or securities or other rights convertible into or exchangeable or exercisable for any shares of our common stock either owned as of the date of this prospectus supplement or thereafter acquired, subject to limited exceptions, without the prior written consent of Jefferies & Company, Inc. The lock-up period may be extended if (1) during the last 17 days of the lock-up period we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period. The period of such extension will be 18 days, beginning on the issuance of the earnings release or the occurrence of the material news or material event.

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We have been advised by the underwriter that, in accordance with Regulation M under the Securities Act of 1933, some persons participating in this offering may engage in transactions, including syndicate covering transactions, stabilizing bids or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the shares at a level above that which might otherwise prevail in the open market.

A syndicate covering transaction is a bid for or the purchase of shares on behalf of the underwriter to reduce a syndicate short position incurred by the underwriter in connection with this offering. The underwriter may create a syndicate short position by making short sales of our shares and may purchase our shares in the open market to cover syndicate short positions created by short sales. Short sales involve the sale by the underwriter of a greater number of shares than it is required to purchase in this offering. Short sales can be either covered or naked. Covered short sales are sales made in an amount not greater than the underwriter's over-allotment option to purchase additional shares from us in this offering. Naked short sales are sales in excess of the over-allotment option. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering. If the underwriter creates a syndicate short position, it may choose to reduce or cover this position by either exercising all or part of the over-allotment option to purchase additional shares from us or by engaging in syndicate covering transactions. The underwriter may close out any covered short position by either exercising its over-allotment option or purchasing shares in the open market. The underwriter must close out any naked short position by purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option.

A stabilizing bid is a bid for or the purchase of shares by the underwriter for the purpose of fixing or maintaining the price of our common stock. A penalty bid is an arrangement that permits the underwriter to reclaim the selling concession from a selling group member when shares sold by such member are purchased by the underwriter in a syndicate covering transaction and, therefore, have not been effectively placed by such member.

We have been advised by the underwriter that these transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time. Similar to other purchase activities, these activities may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market.

Our shares of common stock are traded on the NYSE under the symbol ACR. Any common stock sold pursuant to this prospectus supplement will be listed on the NYSE, subject to official notice of issuance.

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LEGAL MATTERS

The validity of the securities offered by this prospectus supplement will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. Certain legal matters relating to the offering will be passed upon for the underwriter by Morrison & Foerster LLP, New York, New York.

EXPERTS

The consolidated financial statements of American Retirement Corporation and subsidiaries as of December 31, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP covering the consolidated financial statements contains an explanatory paragraph that refers to the restatement of the financial statements as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004. In addition, such report also contains an explanatory paragraph that refers to a change in the method of accounting for variable interest entities in accordance with Financial Accounting Standards Board Interpretation No. 46(R), Consolidation of Variable Interest Entities.

The audit report on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2004, expresses the opinion that we did not maintain effective internal control over financial reporting as of December 31, 2004 because of the effect of material weaknesses on the achievement of the objectives of the control criteria and contains explanatory paragraphs that state that we did not maintain adequate policies, procedures and personnel related to our interim and annual financial reporting processes. Specifically, our policies and procedures related to our financial reporting processes did not provide for effective management research and review by adequately qualified personnel of interim and annual financial statement classifications prior to issuance of the related financial statements. In addition, we lacked adequate personnel resources possessing sufficient expertise to effectively perform a review of interim and annual financial information prior to issuance. In addition, the opinion contains an explanatory paragraph that states that we did not maintain adequate policies and procedures to ensure accounting and reporting of certain leasing transactions in accordance with US generally accepted accounting principles. Specifically, our policies and procedures did not provide for the proper application of US generally accepted accounting principles for certain lease agreements that provide for variable lease payments over the terms of such lease agreements.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act (File No. 01-13031), and we therefore file periodic reports, proxy statements and other information with the Securities and Exchange Commission relating to our business, financial statements and other matters. The reports, proxy statements and other information we file may be inspected and copied at prescribed rates at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy statements and other information regarding issuers like us that file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's Internet site is <http://www.sec.gov>. In addition, you can obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This prospectus supplement and the accompanying prospectus constitute part of a registration st