

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

Brookdale Senior Living Inc.
Form 10-Q
November 09, 2015
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, 2015

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 reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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

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

As of November 5, 2015, 184,780,068 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, 2015

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets - As of September 30, 2015 (Unaudited) and December 31, 2014	3
Condensed Consolidated Statements of Operations - Three and nine months ended September 30, 2015 and 2014 (Unaudited)	4
Condensed Consolidated Statement of Equity - Nine months ended September 30, 2015 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2015 and 2014 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	44
Item 4. Controls and Procedures	45
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	45
Item 1A. Risk Factors	45
Item 6. Exhibits	45
Signatures	46

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except stock amounts)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$70,391	\$104,083
Cash and escrow deposits – restricted	48,020	38,862
Accounts receivable, net	152,557	149,730
Deferred tax asset	84,199	84,199
Prepaid expenses and other current assets, net	122,954	237,915
Total current assets	478,121	614,789
Property, plant and equipment and leasehold intangibles, net	8,277,675	8,389,505
Cash and escrow deposits – restricted	40,396	56,376
Investment in unconsolidated ventures	345,011	312,925
Goodwill	745,996	736,805
Other intangible assets, net	133,079	154,773
Other assets, net	254,682	256,190
Total assets	\$10,274,960	\$10,521,363
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$89,582	\$159,922
Current portion of capital and financing lease obligations	60,798	112,343
Trade accounts payable	89,096	76,314
Accrued expenses	390,765	422,654
Refundable entrance fees and deferred revenue	81,791	101,613
Tenant security deposits	4,098	4,916
Total current liabilities	716,130	877,762
Long-term debt, less current portion	3,499,554	3,356,808
Capital and financing lease obligations, less current portion	2,525,171	2,536,883
Line of credit	310,000	100,000
Deferred liabilities	266,253	256,346
Deferred tax liability	84,496	243,474
Other liabilities	246,829	267,849
Total liabilities	7,648,433	7,639,122
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at September 30, 2015 and December 31, 2014; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized at September 30, 2015 and December 31, 2014; 190,631,056 and 189,466,395 shares issued and 188,202,655 and 187,037,994 shares outstanding (including 3,423,803 and 3,552,143 unvested restricted shares), respectively	1,882	1,870
Additional paid-in-capital	4,062,781	4,034,655
Treasury stock, at cost; 2,428,401 shares at September 30, 2015 and December 31, 2014	(46,800)	(46,800)

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

Accumulated deficit	(1,391,219)	(1,108,001)
Total Brookdale Senior Living Inc. stockholders' equity	2,626,644	2,881,724
Noncontrolling interest	(117)	517
Total equity	2,626,527	2,882,241
Total liabilities and equity	\$10,274,960	\$10,521,363

See accompanying notes to condensed consolidated financial statements.

3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue				
Resident fees	\$1,040,082	\$955,512	\$3,136,292	\$2,259,339
Management fees	14,694	10,428	44,630	25,319
Reimbursed costs incurred on behalf of managed communities	184,065	117,995	543,984	294,945
Total revenue	1,238,841	1,083,935	3,724,906	2,579,603
Expense				
Facility operating expense (excluding depreciation and amortization of \$148,120, \$169,855, \$571,059 and \$296,583, respectively)	699,720	637,084	2,091,600	1,502,369
General and administrative expense (including non-cash stock-based compensation expense of \$10,147, \$7,869, \$25,871 and \$23,170, respectively)	99,534	90,020	278,609	181,693
Transaction costs	—	41,572	7,163	59,224
Facility lease expense	91,144	91,462	276,953	231,361
Depreciation and amortization	160,715	178,999	606,787	320,403
Loss on facility lease termination	—	—	76,143	—
Costs incurred on behalf of managed communities	184,065	117,995	543,984	294,945
Total operating expense	1,235,178	1,157,132	3,881,239	2,589,995
Income (loss) from operations	3,663	(73,197)	(156,333)	(10,392)
Interest income	399	392	1,208	998
Interest expense:				
Debt	(43,972)	(38,452)	(130,004)	(85,898)
Capital and financing lease obligations	(53,217)	(40,916)	(159,463)	(53,125)
Amortization of deferred financing costs and debt premium (discount)	(616)	189	(835)	(7,907)
Change in fair value of derivatives	(164)	(10)	(790)	(2,179)
Debt modification and extinguishment costs	(6,736)	(569)	(6,780)	(3,766)
Equity in (loss) earnings of unconsolidated ventures	(1,578)	(1,246)	(766)	913
Other non-operating income	3,089	700	8,234	4,621
Loss before income taxes	(99,132)	(153,109)	(445,529)	(156,735)
Benefit for income taxes	30,796	116,073	161,677	114,105
Net loss	(68,336)	(37,036)	(283,852)	(42,630)
Net loss attributable to noncontrolling interest	116	174	634	174
Net loss attributable to Brookdale Senior Living Inc. common stockholders	\$(68,220)	\$(36,862)	\$(283,218)	\$(42,456)
Basic and diluted net loss per share attributable to Brookdale Senior Living Inc. common stockholders	\$ (0.37)	\$ (0.23)	\$ (1.54)	\$ (0.31)
	184,570	159,003	184,175	136,306

Weighted average shares used in computing basic and diluted
net loss per share

See accompanying notes to condensed consolidated financial statements.

4

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

	Common Stock		Additional	Treasury	Accumulated	Stockholders'	Noncontrolling	Total
	Shares	Amount	Paid-In-Capital	Stock	Deficit	Equity	Interest	Equity
Balances at January 1, 2015	187,038	\$ 1,870	\$4,034,655	\$(46,800)	\$(1,108,001)	\$ 2,881,724	\$ 517	\$2,882,241
Compensation expense related to restricted stock grants	—	—	25,871	—	—	25,871	—	25,871
Net loss	—	—	—	—	(283,218)	(283,218)	(634)	(283,852)
Issuance of common stock under Associate Stock Purchase Plan	79	1	2,156	—	—	2,157	—	2,157
Restricted stock, net	1,086	11	(11)	—	—	—	—	—
Other	—	—	110	—	—	110	—	110
Balances at September 30, 2015	188,203	\$ 1,882	\$4,062,781	\$(46,800)	\$(1,391,219)	\$ 2,626,644	\$ (117)	\$2,626,527

See accompanying notes to condensed consolidated financial statements.

5

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

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities		
Net loss	\$(283,852)	\$(42,630)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt, net	44	3,766
Depreciation and amortization, net	607,622	328,310
Equity in loss (earnings) of unconsolidated ventures	766	(913)
Distributions from unconsolidated ventures from cumulative share of net earnings	7,825	1,210
Amortization of deferred gain	(3,279)	(3,279)
Amortization of entrance fees	(2,316)	(20,506)
Proceeds from deferred entrance fee revenue	8,887	30,129
Deferred income tax benefit	(164,014)	(116,164)
Change in deferred lease liability	6,451	2,400
Change in fair value of derivatives	790	2,179
(Gain) loss on sale of assets	(1,723)	315
Non-cash stock-based compensation	25,871	23,170
Non-cash interest expense on financing lease obligations	17,458	5,947
Amortization of (above) below market rents, net	(5,425)	(1,377)
Other	(2,272)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,907)	25,086
Prepaid expenses and other assets, net	39,897	(68,046)
Accounts payable and accrued expenses	(23,192)	(7,094)
Tenant refundable fees and security deposits	(738)	(1,151)
Deferred revenue	(23,708)	(4,504)
Net cash provided by operating activities	202,185	156,848
Cash Flows from Investing Activities		
Decrease in lease security deposits and lease acquisition deposits, net	12,541	3,260
Decrease in cash and escrow deposits — restricted	6,822	14,640
Additions to property, plant and equipment and leasehold intangibles, net	(301,778)	(212,533)
Acquisition of assets, net of related payables and cash received	(193,451)	(39,818)
Acquisition of Emeritus Corporation, cash received	—	28,429
Investment in unconsolidated ventures	(40,709)	(25,532)
Distributions received from unconsolidated ventures	7,038	12,057
Proceeds from sale of assets, net	8,072	—
Other	3,163	2,713
Net cash used in investing activities	(498,302)	(216,784)
Cash Flows from Financing Activities		
Proceeds from debt	550,131	226,510
Repayment of debt and capital and financing lease obligations	(453,389)	(274,381)
Proceeds from line of credit	970,000	242,000

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

Repayment of line of credit	(760,000)	(272,000)
Proceeds from public equity offering, net	—	330,405
Payment of financing costs, net of related payables	(32,251)	(1,020)
Refundable entrance fees:		
Proceeds from refundable entrance fees	1,510	20,330
Refunds of entrance fees	(3,251)	(25,327)
Cash portion of loss on extinguishment of debt	(44)	(4,101)
Payment on lease termination	(12,375)	(3,875)
Other	2,094	1,208
Net cash provided by financing activities	262,425	239,749
Net (decrease) increase in cash and cash equivalents	(33,692)	179,813
Cash and cash equivalents at beginning of period	104,083	58,511
Cash and cash equivalents at end of period	\$70,391	\$238,324

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business

Brookdale Senior Living Inc. ("Brookdale" or the "Company") is the leading operator of senior living communities throughout the United States. The Company is committed to providing senior living solutions primarily within properties that are designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Company operates independent living, assisted living and dementia-care communities and continuing care retirement centers ("CCRCs"). Through its ancillary services program, the Company also offers a range of outpatient therapy, home health, personalized living and hospice services.

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 ("SEC") 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, 2015, 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, 2014 filed with the SEC on February 25, 2015.

The results of communities and companies acquired are included in the condensed consolidated financial statements from the effective date of the respective acquisition.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Brookdale and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operation, are accounted for by the equity method.

The Company continually evaluates its potential variable interest entity ("VIE") relationships under certain criteria as provided for in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation ("ASC 810"). ASC 810 broadly defines a VIE as an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. The Company identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. The Company performs this analysis on an ongoing basis and consolidates any VIEs for which the Company is determined to be the primary beneficiary.

Refer to Note 13 for more information about the Company's VIE relationships.

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 from certain skilled nursing services and ancillary charges is recognized as services are provided, and such fees are billed monthly in arrears.

7

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

ASC 820, Fair Value Measurements and Disclosures 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. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

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

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

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

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

The Company estimates the fair value of its 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 of approximately \$3.6 billion as of September 30, 2015 and \$3.5 billion as of December 31, 2014, excluding the Company's secured credit facility. The Company had capital and financing lease obligations with a carrying value of \$2.6 billion as of September 30, 2015 and December 31, 2014. Fair value of the debt and capital and financing lease obligations approximates carrying value in all periods. The Company's fair value of debt and capital and financing lease obligations disclosure is classified within Level 2 of the valuation hierarchy.

Stock-Based Compensation

The Company follows ASC 718, Compensation - Stock Compensation ("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 are recognized when incurred.

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

For all share-based awards with graded vesting other than awards with performance-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis (or, if applicable, on the accelerated method) over the requisite service period. For graded-vesting awards with performance-based vesting conditions, total compensation expense is recognized over the requisite service period for each separately vesting tranche of the award as if the award is, in substance, multiple awards once the achievement of performance target is deemed probable. 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.

8

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 high 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 becomes available.

New Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires entities to present debt issuance costs as a direct adjustment to the carrying value of the debt instead of as an asset. This presentation is consistent with the current accounting for debt discounts and premiums. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Company will adopt ASU 2015-03 on January 1, 2016, and it is not expected to have a material impact on the Company's condensed consolidated financial statements and disclosures.

In January 2015, the FASB issued ASU No. 2015-01, Simplifying Income Statement—Presentation by Eliminating the Concept of Extraordinary Items ("ASU 2015-01"). ASU 2015-01 is intended to reduce complexity and cost of compliance with GAAP by eliminating the concept of extraordinary items in the statement of operations. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Company adopted ASU 2015-01 on January 1, 2015, and it did not have a material impact on the Company's condensed consolidated financial statements and disclosures for the nine months ended September 30, 2015.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the Company beginning in the fourth quarter of 2016. The Company is currently evaluating the impact that the adoption of ASU 2014-15 will have on its condensed consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The new standard will be effective for the Company beginning on January 1, 2018 and early adoption will be permitted beginning on January 1, 2017. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on its condensed consolidated financial statements and disclosures.

Reclassifications

For the three months ended March 31, 2015, \$5.3 million was reclassified between general and administrative expense and facility operating expense in the condensed consolidated statements of operations to conform to the current

financial statement presentation, with no effect on the Company's consolidated financial position or results of operations. Certain other 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.

9

During the three and nine months ended September 30, 2015 and 2014, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock, restricted stock units and convertible debt instruments and warrants were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock units excluded from the calculations of diluted net loss per share were 3.5 million for both the three months ended September 30, 2015 and 2014, respectively, and 3.8 million and 3.6 million for the nine months ended September 30, 2015 and 2014, respectively.

The calculation of diluted weighted average shares excludes the impact of conversion of the outstanding principal amount of \$316.3 million of the Company's 2.75% convertible senior notes due 2018. As of September 30, 2015 and 2014, the maximum number of shares issuable upon conversion of the notes is approximately 13.8 million (after giving effect to additional make-whole shares issuable upon conversion in connection with the occurrence of certain events); however it is the Company's current intent and policy to settle the principal amount of the notes in cash upon conversion. The maximum number of shares issuable upon conversion of the notes in excess of the amount of principal that would be settled in cash is approximately 3.0 million. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of September 30, 2015 and 2014, the number of shares issuable upon exercise of the warrants was approximately 10.8 million.

4. Acquisitions

Acquisition of Emeritus

On July 31, 2014, the Company completed the merger contemplated by that certain Agreement and Plan of Merger, dated as of February 20, 2014, (the "Merger Agreement") by and among Emeritus Corporation ("Emeritus"), the Company, and Broadway Merger Sub Corporation, a wholly-owned subsidiary of the Company ("Merger Sub"), pursuant to which Merger Sub merged with and into Emeritus, with Emeritus continuing as the surviving corporation and a wholly-owned subsidiary of the Company (the "Merger"). Prior to the Merger, Emeritus was a senior living service provider focused on operating residential style communities throughout the United States. As of July 31, 2014, Emeritus operated 493 communities, including assisted living and dementia care communities. Many of these communities offer independent living alternatives and, to a lesser extent, skilled nursing care. As of July 31, 2014, Emeritus owned 182 communities and leased 311 communities. Prior to the Merger, Emeritus also offered a range of outpatient therapy and home health services in Florida, Arizona and Texas.

The aggregate acquisition-date fair value of the consideration transferred in the Merger was approximately \$3.0 billion which consisted of the issuance of 47.6 million shares of the Company's common stock with a fair value of approximately \$1.6 billion upon the cancellation of all shares of Emeritus' common stock and stock options, as well as the Company's assumption of approximately \$1.4 billion aggregate principal amount of existing mortgage indebtedness of Emeritus. The fair value of the 47.6 million common shares issued was determined based on the closing market price of the Company's common shares on July 31, 2014, the effective date of the Merger.

Emeritus maintained general and professional liability coverage for its owned, leased and managed communities under insurance policies that provided for self-insured retention. In certain historical periods Emeritus was uninsured for a subset of communities. In addition, it maintained a large-deductible workers compensation and a self-insured employee medical program. Emeritus accrued for claims under these three programs and therefore maintained reserves for liabilities related thereto. The Company acquired these liabilities as a result of the Merger, evaluated the adequacy of Emeritus' insurance reserves by reviewing historical claims, investigating claim files with assistance from Emeritus' third party administrators and other consultants, reviewing Emeritus' historical actuarial reports, and obtaining new actuarial valuations for claims incurred but not paid as of the date of the Merger. The Company also acquired tail insurance to provide coverage for general and professional liability claims incurred before the Merger date but made after, and maintains reserves for deductibles payable under the tail policies.

The allocation of fair values of the assets acquired and liabilities assumed has changed from the allocation reported in "Note 4 – Acquisitions and Other Significant Transactions" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 25, 2015. The changes to the Company's valuation assumptions were based on more accurate information becoming available concerning the subject assets and liabilities. The purchase price allocation adjustments were related to pre-acquisition self-insurance reserves and the related deferred tax impact, resulting in a \$5.9 million net increase to the goodwill allocated to the Assisted Living segment during the nine months ended September 30, 2015. None of these changes had a material impact on the Company's condensed consolidated financial statements.

10

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

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

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Total revenue	\$ 1,260	\$ 3,802
Net loss attributable to Brookdale Senior Living Inc. common stockholders	(36)	(67)
Basic and diluted net loss per share attributable to Brookdale Senior Living Inc. common stockholders	\$(0.21)	\$(0.39)
Weighted average shares used in computing basic and diluted net loss per share (in thousands)	175,037	173,258

The Company incurred \$35.6 million and \$49.9 million of transaction costs related to the acquisition of Emeritus for the three and nine months ended September 30, 2014, respectively. Transaction costs are primarily comprised of transaction fees and direct acquisition costs, including legal, finance, consulting, professional fees and other third party costs. The pro forma consolidated operational data for the three and nine months ended September 30, 2014 excludes \$35.6 million and \$49.9 million of transaction costs that were directly attributable to the Merger. On August 29, 2014, the Company and HCP, Inc. ("HCP") entered into two ventures and amended the terms of certain existing agreements between the Company and HCP as reported in "Note 4 – Acquisitions and Other Significant Transactions" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 25, 2015. The pro forma consolidated operational data reflects the Company's full ownership interests and previously existing lease terms.

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

Community Acquisitions

On December 29, 2014, the Company exercised its purchase option under an amended and restated master lease with HCP, as amended. As a result, the Company agreed to purchase the fee simple interest of nine communities previously leased to the Company for an aggregate purchase price of \$60.0 million. On December 31, 2014, the Company paid the full purchase price of \$51.4 million of cash as a deposit for the purchase of eight of the nine communities, and the Company took title to these eight communities at the closing on January 1, 2015. On May 1, 2015, the Company acquired the ninth community and paid the remainder of the purchase price of \$8.6 million of cash. The results of operations of these communities are reported in the Assisted Living and CCRCs - Rental segments within the condensed consolidated financial statements for the three and nine months ended September 30, 2015.

In February 2015, the Company acquired the underlying real estate associated with 15 communities that were previously leased for an aggregate purchase price of \$268.6 million. The results of operations of these communities are reported in the Retirement Centers, Assisted Living, and CCRCs – Rental segments within the condensed consolidated financial statements for the three and nine months ended September 30, 2015. The Company financed the transaction with cash on hand, amounts drawn on the secured credit facility and \$20.0 million of seller financing.

The \$20.0 million note has a five year term and bears interest at a fixed rate of 8.0%. The fair value of the communities acquired was determined to approximate \$187.2 million. The Company recorded the difference between the amount paid and the estimated fair value of the communities acquired (\$76.1 million) as a loss on facility lease termination on the condensed consolidated statement of operations for the nine months ended September 30, 2015 and reversed \$5.3 million of deferred lease liabilities associated with the termination of the operating lease agreements. The payment for the termination of the lease agreements has been included within net cash provided by operating activities within the condensed consolidated statement of cash flows for the nine months ended September 30, 2015.

Investment in Unconsolidated RIDEA Venture

On June 30, 2015, the Company and HCP entered into a RIDEA venture, which acquired 35 senior housing communities for \$847 million. The Company contributed \$30.3 million in cash to the RIDEA venture. The Company owns a 10% ownership interest, and HCP owns a 90% ownership interest, in each of the propco and opco. The Company had operated these communities under a management agreement since 2011 and will continue to manage the communities under a market rate long-term management agreement with the venture. The Company's interest in the venture is accounted for under the equity method of accounting.

5. Stock-Based Compensation

The Company's compensation expense recorded in connection with grants of restricted stock reflects an initial estimated cumulative forfeiture rate from 0% to 15% 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 2014 Omnibus 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, 2015	1,335	\$34.57 – 34.89	\$46,142
Three months ended June 30, 2015	70	\$36.12	\$2,540
Three months ended September 30, 2015	49	\$33.02	\$1,611

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, 2015 and the year ended December 31, 2014 presented on an operating segment basis (dollars in thousands):

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Impairment and Other Charges	Net	Gross Carrying Amount	Accumulated Impairment and Other Charges	Net
Retirement Centers	\$28,141	\$ (521)	\$27,620	\$28,141	\$ (521)	\$27,620
Assisted Living	591,814	(248)	591,566	582,623	(248)	582,375
Brookdale Ancillary Services	126,810	—	126,810	126,810	—	126,810
Total	\$746,765	\$ (769)	\$745,996	\$737,574	\$ (769)	\$736,805

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. The Company determined no impairment was necessary for the nine months ended September 30, 2015.

The following is a summary of other intangible assets at September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	\$40,270	\$ —	\$40,270	\$55,738	\$ —	\$55,738
Health care licenses	67,511	—	67,511	64,538	—	64,538
Trade names	27,800	(11,702)	16,098	27,800	(4,179)	23,621
Other	13,531	(4,331)	9,200	13,531	(2,655)	10,876
Total	\$149,112	\$ (16,033)	\$133,079	\$161,607	\$ (6,834)	\$154,773

Amortization expense related to definite-lived intangible assets for the three months ended September 30, 2015 and 2014 was \$3.1 million and \$2.5 million, respectively and for the nine months ended September 30, 2015 and 2014 was \$9.2 million and \$4.9 million, respectively. Health care licenses were determined to be indefinite-lived intangible

assets and are not subject to amortization. The community purchase options are not currently amortized, but will be added to the cost basis of the related communities if the option is exercised, and will then be depreciated over the estimated useful life of the community.

12

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

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

	September 30, 2015	December 31, 2014
Land	\$513,347	\$475,485
Buildings and improvements	5,293,822	5,017,991
Leasehold improvements	87,744	56,515
Furniture and equipment	858,435	735,837
Resident and leasehold operating intangibles	851,086	852,746
Construction in progress	123,568	99,408
Assets under capital and financing leases	3,049,374	3,057,516
	10,777,376	10,295,498
Accumulated depreciation and amortization	(2,499,701)	(1,905,993)
Property, plant and equipment and leasehold intangibles, net	\$8,277,675	\$8,389,505

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise. The Company determined no impairment was necessary during the nine months ended September 30, 2015.

8. Debt

Long-term Debt and Capital and Financing Lease Obligations

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

	September 30, 2015	December 31, 2014
Mortgage notes payable due 2016 through 2047; weighted average interest rate of 4.41% for the nine months ended September 30, 2015, including net debt premium of \$16.6 million and \$59.6 million at September 30, 2015 and December 31, 2014, respectively (weighted average interest rate of 4.84% in 2014)	\$3,185,827	\$3,105,410
Capital and financing lease obligations payable through 2031; weighted average interest rate of 8.15% for the nine months ended September 30, 2015 (weighted average interest rate of 8.57% in 2014)	2,585,969	2,649,226
Convertible notes payable in aggregate principal amount of \$316.3 million, less debt discount of \$35.2 million and \$43.9 million at September 30, 2015 and December 31, 2014, respectively, interest at 2.75% per annum, due June 2018	281,063	272,345
Construction financing due 2017 through 2019; weighted average interest rate of 5.94% for the nine months ended September 30, 2015 (weighted average interest rate of 4.90% in 2014)	37,450	50,118
Notes payable issued to finance insurance premiums, weighted average interest rate of 2.82% for the nine months ended September 30, 2015 (weighted average interest rate of 2.82% in 2014), due 2015	2,560	22,586
	82,236	66,271

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

Other notes payable, weighted average interest rate of 5.53% for the nine months ended September 30, 2015 (weighted average interest rate of 4.75% in 2014) and maturity dates ranging from 2015 to 2020

Total	6,175,105	6,165,956
Less current portion of long-term debt and capital and financing lease obligations	150,380	272,265
Total long-term debt and capital and financing lease obligations	\$6,024,725	\$5,893,691

13

Credit Facilities

On December 19, 2014, the Company entered into a Fourth Amended and Restated Credit Agreement with General Electric Capital Corporation, as administrative agent, lender and swingline lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated in its entirety the Company's previously existing Third Amended and Restated Credit Agreement dated as of September 20, 2013, which provided a total commitment amount of \$250.0 million. The amended agreement provides for a total commitment amount of \$500.0 million, comprised of a \$100.0 million term loan drawn at closing and a \$400.0 million revolving credit facility (with a \$50.0 million sublimit for letters of credit and a \$50.0 million swingline feature to permit same day borrowing) and an option to increase the revolving credit facility by an additional \$250.0 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. In addition, the amended credit agreement extended the maturity date from March 31, 2018 to January 3, 2020 and decreased the interest rate payable on drawn amounts and the fee payable on the unused portion of the facility. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the amended agreement reduces the applicable margin from a range of 3.25% to 4.25% to a range of 2.50% to 3.50%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.50% margin at utilization equal to or lower than 35%, a 3.25% margin at utilization greater than 35% but less than or equal to 50%, and a 3.50% margin at utilization greater than 50%. The amended agreement also eliminates the minimum 0.5% LIBOR rate included in the prior agreement.

Amounts drawn on the facility may be used to finance acquisitions, fund working capital and capital expenditures and for other general corporate purposes.

The credit facility will continue to be secured by first priority mortgages on certain of the Company's communities. In addition, the amended agreement permits the Company to pledge the equity interests in subsidiaries that own other communities (rather than mortgaging such communities), provided that loan availability from pledged assets cannot exceed 10% of loan availability from mortgaged assets. The availability under the line will vary from time to time as it is based on borrowing base calculations related to the appraised value and performance of the communities securing the facility.

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

As of September 30, 2015, the outstanding balance under this credit facility was \$310.0 million. The Company also had secured and unsecured letter of credit facilities of up to \$115.6 million in the aggregate as of September 30, 2015. Letters of credit totaling \$83.9 million had been issued under these facilities as of that date.

Financings

On March 31, 2015, the Company obtained a \$63.0 million loan, secured by first mortgages on six communities. The loan bears interest at a variable rate equal to 90-day LIBOR plus a margin of 325 basis points and matures on April 1, 2020.

On April 30, 2015, the Company obtained a \$65.3 million loan, secured by first mortgages on six communities. The loan bears interest at a fixed rate of 3.98% and matures on May 1, 2027.

On August 27, 2015, the Company obtained \$226.4 million in loans secured by first mortgages on 21 communities. The mortgage facility has a ten year term and 75% of it bears interest at a variable rate of 30-day LIBOR plus a margin of 221 basis points and the remaining 25% bears interest at a fixed rate of 4.80%. Proceeds of the loans were used to refinance \$209.9 million of fixed rate mortgage debt on 28 communities that was scheduled to mature in September 2017. In connection with the transaction, the Company paid a prepayment penalty of \$17.9 million, of which \$10.4 million was recorded against the existing debt premium, \$6.3 million was recorded as a debt discount for the new loans, and \$1.2 million was recorded as an extinguishment cost for the seven communities that became unencumbered.

On September 15, 2015, the Company obtained \$140.4 million in loans secured by first mortgages on 18 communities. The mortgage facility has a seven year term and bears interest at a variable rate of one-month LIBOR plus a margin of 223 basis points. Proceeds of the loans were used to refinance \$122.3 million of fixed rate mortgage debt that was scheduled to mature in May 2018. In connection with the transaction, the Company paid a prepayment penalty of \$13.6 million, of which \$7.6 million was recorded against the existing debt premium and \$6.0 million was recorded as a debt discount for the new loans.

The financings that occurred during the three months ended September 30, 2015 were accounted for as debt modifications and \$5.5 million of debt modification costs were recorded on the condensed consolidated statement of operations for that period.

As of September 30, 2015, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

9. Litigation

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

10. Supplemental Disclosure of Cash Flow Information

(dollars in thousands):

	Nine Months Ended September 30,	
	2015	2014
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$270,352	\$132,716
Income taxes paid	\$2,806	\$2,546
Acquisition of assets, net of related payables and cash received:		
Prepaid expenses and other assets	\$(50,756)	\$(3,138)
Property, plant and equipment and leasehold intangibles, net	196,196	80,330
Other intangible assets, net	(7,293)	(24,601)
Capital and financing lease obligations	75,619	7,795
Long-term debt	(20,000)	(20,568)
Other liabilities	(315)	—
Net cash paid	\$193,451	\$39,818
Formation of CCRC venture:		
Property, plant and equipment and leasehold intangibles, net	\$—	\$(728,227)
Investment in unconsolidated ventures	—	192,940
Other intangibles assets, net	—	(56,829)
Other assets, net	—	(9,137)
Long-term debt	—	170,416
Capital and financing lease obligations	—	27,085
Refundable entrance fees and deferred revenue	—	413,761
Other liabilities	—	2,163
Net cash paid	\$—	\$12,172
Formation of HCP 49 Venture:		
Property, plant and equipment and leasehold intangibles, net	\$—	\$(525,446)
Investment in unconsolidated ventures	—	71,656
Long-term debt	—	(67,640)
Capital and financing lease obligations	—	538,355
Other liabilities	—	(9,034)
Net cash paid	\$—	\$7,891
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Capital and financing leases:		
Property, plant and equipment and leasehold intangibles, net	\$24,535	\$27,100
Other intangible assets, net	(5,202)	—
Capital and financing lease obligations	(21,629)	(27,100)
Other liabilities	2,296	—
Net	\$—	\$—
Master lease amendments:		
Property, plant and equipment and leasehold intangibles, net	\$—	\$385,696
Other intangible assets, net	—	(174,012)
Capital and financing lease obligations	—	(217,022)
Other liabilities	—	5,338
Net	\$—	\$—
Contribution to CCRC venture:		
Property, plant and equipment	\$(25,459)	\$—
Investment in unconsolidated ventures	7,344	—
Long-term debt	\$18,115	\$—

Net
16

11. Facility Operating Leases

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Cash basis payment	\$92,132	\$91,092	\$279,206	\$233,617
Straight-line expense	1,731	2,840	6,451	2,400
Amortization of (above) below market rent, net	(1,626)	(1,377)	(5,425)	(1,377)
Amortization of deferred gain	(1,093)	(1,093)	(3,279)	(3,279)
Facility lease expense	\$91,144	\$91,462	\$276,953	\$231,361

12. Income Taxes

The difference in the Company's effective tax rates for the three and nine months ended September 30, 2015 and 2014 was primarily due to changes in the Company's financial results under generally accepted accounting principles and the reversal of the majority of the Company's valuation allowance, which occurred during the three months ended September 30, 2014. The Company recorded an aggregate deferred federal, state and local tax benefit of \$31.6 million and \$164.0 million as a result of the operating loss for the three and nine months ended September 30, 2015, respectively. The Company evaluates its deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Accordingly, the Company recorded an additional valuation allowance of \$7.1 million in the three months ended September 30, 2015 related to tax credits. If the Company continues its trend of increasing losses before income taxes, the valuation allowance may be increased in future periods. The Company's valuation allowance as of September 30, 2015 and December 31, 2014 is \$16.3 million and \$9.2 million, respectively.

The Company's current tax expense continues to mainly reflect its cash tax position for states that do not allow for or have suspended the use of net operating losses for the period.

The Company recorded interest charges related to its tax contingency reserve for cash tax positions for the nine months ended September 30, 2015 which are included in income tax benefit for the period. Tax returns for years 2011 through 2014 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

13. Variable Interest Entities

At September 30, 2015, the Company has equity interests in unconsolidated VIEs. The Company has determined that it does not have the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance and is not the primary beneficiary of these VIEs in accordance with ASC 810. The Company's interests in the VIEs are, therefore, accounted for under the equity method of accounting.

The Company holds a 51% equity interest in a venture that owns and operates entry fee CCRCs (the "CCRC Venture"). The CCRC Venture's opco has been identified as a VIE. The equity members of the CCRC Venture's opco share certain operating rights, and the Company acts as manager to the CCRC Venture opco; however, the Company does not consolidate this VIE because it does not have the ability to control the activities that most significantly impact this VIE's economic performance. The assets of the CCRC Venture opco primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable and cash and cash equivalents. The obligations of the

CCRC Venture opco primarily consist of community lease obligations, mortgage debt, accounts payable, accrued expenses and refundable entrance fees. Assets generated by the CCRC operations (primarily rents from CCRC residents) of the CCRC Venture opco may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to operate the communities).

17

The Company holds a 20% equity interest, and HCP owns an 80% equity interest, in each of the propco and opco of a venture ("HCP 49 Venture"). The opco and propco of the HCP 49 Venture have been identified as VIEs. The equity members of the HCP 49 Venture share certain operating rights, and the Company acts as manager to the HCP 49 Venture opco. However, the Company does not consolidate these VIEs because it does not have the ability to control the activities that most significantly impact the economic performance of these VIEs. The assets of the HCP 49 Venture propco primarily consist of the senior housing communities that it owns and cash and cash equivalents. The obligations of the HCP 49 Venture propco primarily consist of a note payable to HCP. The assets of the HCP 49 Venture opco primarily consist of the senior housing communities that it leases, resident fees receivable and cash and cash equivalents. The obligations of the HCP 49 Venture opco primarily consist of community lease obligations, accounts payable and accrued expenses. Assets generated by the operations of the senior housing communities (primarily rents from senior housing residents) of the HCP 49 Venture may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to operate the communities).

The Company holds a 10% equity interest, and HCP owns a 90% equity interest, in a venture that operates 35 senior housing communities. The venture's opco has been identified as a VIE. The equity members of the opco share certain operating rights, and the Company acts as manager to the opco; however, the Company does not consolidate this VIE because it does not have the ability to control the activities that most significantly impact this VIE's economic performance. The assets of the opco primarily consist of the communities that it owns and leases, resident fees receivable and cash and cash equivalents. The obligations of the opco primarily consist of community lease obligations, debt, accounts payable and accrued expenses. Assets generated by the opco's operations (primarily rents from senior housing residents) of the opco may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to operate the communities). The Company's maximum exposure to loss and carrying amount of this opco are included within other within the table below.

The carrying value and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company's involvement with these VIEs are summarized below at September 30, 2015 (in millions):

VIE Type	Asset Type	Maximum	
		Exposure to Loss	Carrying Amount
CCRC Venture opco	Investment in unconsolidated ventures	\$ 181.3	\$ 181.3
HCP 49 Venture opco and propco	Investment in unconsolidated ventures	\$ 71.5	\$ 71.5
Other	Investment in unconsolidated ventures	\$ 5.5	\$ 1.9

As of September 30, 2015, the Company is not required to provide financial support, through a liquidity arrangement or otherwise, to its unconsolidated VIEs.

14. Segment Information

As of September 30, 2015, the Company has five reportable segments: Retirement Centers; Assisted Living; CCRCs – Rental; Brookdale Ancillary Services; and Management Services. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

Prior to August 29, 2014, the Company had an additional reportable segment, CCRCs - Entry Fee. On August 29, 2014, the Company contributed all but two of the legacy Brookdale entry fee CCRCs to the CCRC Venture, at which time the contributed CCRCs were deconsolidated. The results of the entry fee CCRCs contributed to the CCRC Venture are reported in the CCRCs - Entry Fee segment for the time periods prior to being contributed to the CCRC

Venture. The results of the two legacy Brookdale CCRCs that were not contributed to the CCRC Venture are included in the CCRCs - Entry Fee segment for the six month period ended June 30, 2014 and the CCRCs - Rental segment for the periods subsequent to June 30, 2014, based on how operating results are being reviewed by the chief operating decision maker following the creation of the CCRC Venture. The CCRC Venture is accounted for under the equity method of accounting.

Subsequent to September 30, 2014, one community was moved from the Retirement Centers segment to the CCRCs - Rental segment to more accurately reflect the underlying product offering of the community. The movement did not change our reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers and CCRCs - Rental segments. Revenue and expenses for the three and nine months ended September 30, 2014 have not been recast.

18

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

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

CCRCs - Rental. The Company's CCRCs - Rental segment includes large owned or leased communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care/Alzheimer's units. As of September 30, 2015 and 2014, the CCRCs - Rental segment also includes three entry fee CCRCs.

CCRCs - Entry Fee. Prior to August 29, 2014, the Company had an additional reportable segment, CCRCs - Entry Fee. The communities in the Company's former CCRCs - Entry Fee segment are similar to rental CCRCs but allow for residents in the independent living apartment units to pay a one-time upfront entrance fee, which is partially refundable in certain circumstances. In addition to the initial entrance fee, residents under all entrance fee agreements also pay a monthly service fee, which entitles them to the use of certain amenities and services.

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

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

The accounting policies of the Company's reportable segments are the same as those described in the summary of significant accounting policies in Note 2.

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue				
Retirement Centers ⁽¹⁾	\$164,415	\$155,227	\$492,310	\$421,017
Assisted Living ⁽¹⁾	608,393	516,640	1,837,575	1,071,301
CCRCs - Rental ⁽¹⁾	149,572	144,074	457,124	340,230
CCRCs - Entry Fee ⁽¹⁾	—	44,145	—	202,414
Brookdale Ancillary Services ⁽¹⁾	117,702	95,426	349,283	224,377
Management Services ⁽²⁾	198,759	128,423	588,614	320,264
	\$1,238,841	\$1,083,935	\$3,724,906	\$2,579,603
Segment operating income ⁽³⁾				
Retirement Centers	\$70,334	\$67,205	\$212,902	\$180,326
Assisted Living	211,213	188,154	658,078	397,392
CCRCs - Rental	41,395	34,492	115,826	87,015
CCRCs - Entry Fee	—	10,431	—	48,433
Brookdale Ancillary Services	17,420	18,146	57,886	43,804
Management Services	14,694	10,428	44,630	25,319
	355,056	328,856	1,089,322	782,289
General and administrative (including non-cash stock-based compensation expense)	99,534	90,020	278,609	181,693
Transaction costs	—	41,572	7,163	59,224
Facility lease expense	91,144	91,462	276,953	231,361
Depreciation and amortization	160,715	178,999	606,787	320,403
Loss on facility lease termination	—	—	76,143	—
Income (loss) from operations	\$3,663	\$(73,197)	\$(156,333)	\$(10,392)

	As of September 30, 2015	December 31, 2014
Total assets		
Retirement Centers	\$1,609,486	\$1,607,792
Assisted Living	6,466,083	6,584,830
CCRCs - Rental	1,051,371	1,062,828
Brookdale Ancillary Services	295,141	275,618
Corporate and Management Services	852,879	990,295
Total assets	\$10,274,960	\$10,521,363

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

(2) Management services segment revenue includes reimbursements for which the Company is the primary obligor of costs incurred on behalf of managed communities.

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

15. Subsequent Events

On October 1, 2015, the Company acquired the underlying real estate associated with five communities that were previously leased for an aggregate purchase price of \$78.4 million. The results of operations of these communities are reported in the Assisted Living segment. The Company financed the transaction with seller-financing.

20

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

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

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our operational initiatives and growth strategies and our expectations regarding their effect on our results; our expectations regarding the economy, the senior living industry, occupancy, revenue, cash flow, operating income, expenses, capital expenditures, Program Max opportunities, cost savings and synergies, senior housing supply, the demand for senior housing, the home resale market, expansion, development and construction activity, acquisition opportunities, asset dispositions, innovation and revenue growth opportunities, our share repurchase program, taxes, capital deployment, returns on invested capital and CFFO; our expectations regarding returns to shareholders and our growth prospects; our belief regarding our long-term strength and the value of our assets; statements relating to creating shareholder value; our expectations concerning the future performance of recently acquired communities and the effects of acquisitions on our financial results; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity and leverage; our expectations regarding financings and refinancings of assets (including the timing thereof) and their effect on our results; our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health, personalized living and hospice); our plans to expand, renovate, redevelop and reposition existing communities; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; the expected project costs for our expansion, redevelopment and repositioning program; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations regarding our sales, marketing and branding initiatives and their impact on our results; our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; our ability to increase revenues, earnings, Adjusted EBITDA, CFFO, and/or Facility Operating Income (as such terms are defined herein); and our expectations regarding the integration of Emeritus and the transactions with HCP. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "could," "would," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "project," "predict," "continue," "plan," "target" or other similar words or expressions. Forward-looking statements are based on certain assumptions or estimates, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition, or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and actual results and performance could differ materially from those projected. Factors which could have a material adverse effect on our operations and future prospects or which could cause events or circumstances to differ from the forward-looking statements include, but are not limited to, the risk associated with the current global economic situation and its impact upon capital markets and liquidity; changes in governmental reimbursement programs; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or

unavailable to us; our determination from time to time to purchase any shares under the repurchase program; our ability to fund any repurchases; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; the risk that we may not be able to expand, redevelop and reposition our communities in accordance with our plans; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; early terminations or non-renewal of management agreements; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; risks relating to the integration of Emeritus and the transactions with HCP, including in respect of unanticipated difficulties and/or expenditures relating to such transactions; the impact of such transactions on our relationships with residents, employees and third parties; and the inability to obtain, or delays in obtaining, cost savings and synergies from such transactions; as well as other risks detailed from time to time in our filings with the SEC, including those set forth under "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2014 and Part II, "Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in such SEC filings. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date such forward-looking statements were made. We cannot guarantee future results, levels of activity, performance or achievements, and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Executive Overview

As of September 30, 2015, we are the largest operator of senior living communities in the United States based on total capacity, with 1,132 communities in 47 states and the ability to serve approximately 110,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. As of September 30, 2015, we operated in five business segments: Retirement Centers, Assisted Living, Continuing Care Retirement Centers ("CCRCs") - Rental, Brookdale Ancillary Services and Management Services.

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

During the nine months ended September 30, 2015, we completed several transactions as part of our long-term objectives to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income. These transactions include our acquisition of the underlying real estate associated with 25 communities that were previously leased for an aggregate purchase price of approximately \$343 million.

On July 31, 2014, we acquired Emeritus, a senior living service provider focused on operating residential style communities throughout the United States, for approximately \$3.0 billion consisting of the issuance of our stock with a fair value of approximately \$1.6 billion and our assumption of approximately \$1.4 billion aggregate principal amount of existing mortgage indebtedness. At the closing of the merger, the size of our consolidated portfolio increased by 493 communities, 182 of which were owned and 311 of which were subject to leases that we directly or indirectly assumed in the merger. The Emeritus communities provide independent living, assisted living, memory care and, to a lesser extent, skilled nursing care. The merger significantly increased our scale and provides us the opportunity to leverage this scale to build our national brand and provide greater organic growth, achieve greater operating efficiencies, and drive new innovations to serve our residents. In addition, the merger provided us entry into 10 new states and significantly increased our presence in many high-population states, especially in the west and northeast. Enhanced geographic coverage and density is a contributing factor to our ability to increase our operating efficiencies and may provide additional opportunities for growth from markets with clusters of assets. The merger also enables us to expand our therapy, home health and hospice ancillary programs into the Emeritus communities and accelerate the introduction of Emeritus' Nurse on Call home health services into our major markets. The results of Emeritus' operations have been included in the consolidated financial statements subsequent to the acquisition date. Revenue and facility operating expenses of Emeritus included in the Company's condensed consolidated statements of operations for the nine months ended September 30, 2015 were \$1.3 billion and \$889.1 million, respectively.

Since the closing of our acquisition of Emeritus, we have executed on our plans to integrate Emeritus into our systems and infrastructure platform as rapidly as prudently possible. In January 2015, we completed the third of our four cutover waves of integration activities. We expect the fourth wave to be completed in 2015, though the overall integration effort will continue for some time beyond this. Once wave four is complete, we will have a common systems and infrastructure platform and will be able to manage our business more uniformly across our entire system.

We believe that there are substantial organic growth opportunities inherent in our existing portfolio. We intend to take advantage of those opportunities by growing revenues, while maintaining expense control, at our existing

communities, continuing the expansion and maturation of our ancillary services programs, expanding, redeveloping and repositioning our existing communities, and acquiring additional operating companies and communities.

22

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

The table below presents a summary of our operating results and certain other financial metrics for the three and nine months ended September 30, 2015 and 2014 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Three Months Ended		Increase (Decrease)	
	September 30, 2015	2014	Amount	Percent
Total revenues	\$1,238.8	\$1,083.9	\$154.9	14.3 %
Facility operating expense	\$699.7	\$637.1	\$62.6	9.8 %
Net loss attributable to Brookdale Senior Living Inc. common stockholders	\$(68.2)	\$(36.9)	\$31.4	85.1 %
Adjusted EBITDA	\$191.5	\$119.6	\$71.8	60.0 %
Cash From Facility Operations	\$66.3	\$22.9	\$43.3	189.2 %
Facility Operating Income	\$339.7	\$312.7	\$27.1	8.7 %

	Nine Months Ended		Increase (Decrease)	
	September 30, 2015	2014	Amount	Percent
Total revenues	\$3,724.9	\$2,579.6	\$1,145.3	44.4 %
Facility operating expense	\$2,091.6	\$1,502.4	\$589.2	39.2 %
Net loss attributable to Brookdale Senior Living Inc. common stockholders	\$(283.2)	\$(42.5)	\$240.8	NM
Adjusted EBITDA	\$595.9	\$349.2	\$246.7	70.6 %
Cash From Facility Operations	\$235.3	\$167.0	\$68.3	40.9 %
Facility Operating Income	\$1,042.4	\$736.5	\$305.9	41.5 %

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

During the nine months ended September 30, 2015, total revenues were \$3.7 billion, an increase of \$1.1 billion, or 44.4%, over our total revenues for the nine months ended September 30, 2014. The inclusion of Emeritus' operations contributed \$1.0 billion to the increase in revenue. Aside from the effects of the Emeritus merger, but including the impacts of the transactions with HCP, our revenues increased \$120.0 million, or 4.7%, over our total revenues for the nine months ended September 30, 2014. Resident fees for the nine months ended September 30, 2015 increased \$877.0 million, or 38.8%, from the nine months ended September 30, 2014. Management fees increased \$19.3 million, or 76.3%, from the nine months ended September 30, 2014, and reimbursed costs incurred on behalf of managed communities increased \$249.0 million, or 84.4%. The increase in resident fees during the nine months ended September 30, 2015 was primarily due to the inclusion of Emeritus' operating results since July 31, 2014. The increase in management fees and reimbursed costs incurred on behalf of managed communities is primarily due to our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture, each as described in Note 13 to the condensed consolidated financial statements.

During the nine months ended September 30, 2015, facility operating expenses were \$2.1 billion, an increase of \$589.2 million, or 39.2%, as compared to the nine months ended September 30, 2014. Facility operating expenses increased \$677.6 million due to the inclusion of Emeritus' operations. Excluding the effects of the Emeritus merger,

facility operating expenses decreased \$88.4 million, or 5.9%, primarily due to the contribution of communities to the CCRC Venture.

Net loss attributable to Brookdale Senior Living Inc. common stockholders for the nine months ended September 30, 2015 was \$283.2 million, or \$(1.54) per basic and diluted common share, compared to a net loss of \$42.5 million, or \$(0.31) per basic and diluted common share, for the nine months ended September 30, 2014.

During the nine months ended September 30, 2015, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 70.6%, 40.9% and 41.5%, respectively, when compared to the nine months ended September 30, 2014. Adjusted EBITDA includes integration, transaction, transaction-related and electronic medical records ("EMR") roll-out costs of \$92.1 million for the nine months ended September 30, 2015 and \$100.4 million for the nine months ended September 30, 2014. Cash From Facility Operations includes integration, transaction, transaction-related and EMR roll-out costs of \$98.8 million for the nine months ended September 30, 2015 and \$100.4 million for the nine months ended September 30, 2014.

23

Consolidated Results of Operations

Comparison of Three Months ended September 30, 2015 to September 30, 2014

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

Our results reflect our acquisition of Emeritus subsequent to July 31, 2014, the closing date of the merger. In addition, with respect to the communities contributed to the CCRC Venture and HCP 49 Venture and communities subject to amended lease terms, our results reflect our previously existing ownership, lease and/or management interests through August 29, 2014, and reflect our venture and management interests and amended lease terms for the subsequent periods. We contributed all but two of our legacy Brookdale entry fee CCRCs to the CCRC Venture on August 29, 2014, at which time the contributed CCRCs were deconsolidated. The results of the entry fee CCRCs contributed to the CCRC Venture are reported in the CCRCs - Entry Fee segment for the time periods prior to being contributed to the CCRC Venture. The results of the two legacy Brookdale entry fee CCRCs that were not contributed to the CCRC Venture are included in the CCRCs - Rental segment for the three month period ended September 30, 2014 and for the three month period ended September 30, 2015.

Subsequent to September 30, 2014, one community was moved from the Retirement Centers segment to the CCRCs - Rental segment to more accurately reflect the underlying product offering of the community. The movement did not change our reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers and CCRCs - Rental segments. Revenue and expenses for the three months ended September 30, 2014 have not been recast.

As of September 30, 2015 our total operations included 1,132 communities with a capacity to serve 109,540 residents.

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

	Three Months Ended		Increase (Decrease)	% Increase (Decrease)	
	2015	2014			
(dollars in thousands, except average monthly revenue per unit) September 30,					
Statement of Operations Data:					
Revenue					
Resident fees					
Retirement Centers	\$ 164,415	\$ 155,227	\$ 9,188	5.9	%
Assisted Living	608,393	516,640	91,753	17.8	%
CCRCs – Rental	149,572	144,074	5,498	3.8	%
CCRCs – Entry Fee	—	44,145	(44,145)	(100.0))%
Brookdale Ancillary Services	117,702	95,426	22,276	23.3	%
Total resident fees	1,040,082	955,512	84,570	8.9	%
Management services ⁽¹⁾	198,759	128,423	70,336	54.8	%
Total revenue	1,238,841	1,083,935	154,906	14.3	%
Expense					
Facility operating expense					
Retirement Centers	94,081	88,022	6,059	6.9	%
Assisted Living	397,180	328,486	68,694	20.9	%
CCRCs – Rental	108,177	109,582	(1,405)	(1.3))%
CCRCs – Entry Fee	—	33,714	(33,714)	(100.0))%
Brookdale Ancillary Services	100,282	77,280	23,002	29.8	%
Total facility operating expense	699,720	637,084	62,636	9.8	%
General and administrative expense	99,534	90,020	9,514	10.6	%
Transaction costs	—	41,572	(41,572)	(100.0))%
Facility lease expense	91,144	91,462	(318)	(0.3))%
Depreciation and amortization	160,715	178,999	(18,284)	(10.2))%
Costs incurred on behalf of managed communities	184,065	117,995	66,070	56.0	%
Total operating expense	1,235,178	1,157,132	78,046	6.7	%
Income (loss) from operations	3,663	(73,197)	76,860	105.0	%
Interest income	399	392	7	1.8	%
Interest expense					
Debt	(43,972)	(38,452)	5,520	14.4	%
Capital and financing lease obligations	(53,217)	(40,916)	12,301	30.1	%
Amortization of deferred financing costs and debt premium (discount)	(616)	189	805	425.9	%
Change in fair value of derivatives	(164)	(10)	154	NM	
Debt modification and extinguishment costs	(6,736)	(569)	6,167	NM	
Equity in loss of unconsolidated ventures	(1,578)	(1,246)	332	26.6	%
Other non-operating income	3,089	700	2,389	341.3	%
Loss before income taxes	(99,132)	(153,109)	(53,977)	(35.3))%
Benefit for income taxes	30,796	116,073	(85,277)	(73.5))%
Net loss	(68,336)	(37,036)	31,300	84.5	%
Net loss attributable to noncontrolling interest	116	174	(58)	(33.3))%
Net loss attributable to Brookdale Senior Living Inc. common stockholders	\$(68,220)	\$(36,862)	\$ 31,358	85.1	%

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

Three Months Ended
September 30,

	2015	2014	Increase (Decrease)	% Increase (Decrease)
Selected Operating and Other Data:				
Total number of communities (period end)	1,132	1,147	(15)	(1.3)%
Total units operated ⁽²⁾				
Period end	108,887	110,455	(1,568)	(1.4)%
Weighted average	108,986	95,510	13,476	14.1 %
Owned/leased communities units⁽²⁾				
Period end	82,321	83,086	(765)	(0.9)%
Weighted average	82,396	74,591	7,805	10.5 %
Owned/leased communities occupancy rate (weighted average)	86.7 %	88.5 %	(1.8)%	(2.0)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$4,303	\$4,317	\$ (14)	(0.3)%
Selected Segment Operating and Other Data:				
Retirement Centers				
Number of communities (period end)	98	100	(2)	(2.0)%
Total units ⁽²⁾				
Period end	17,291	17,667	(376)	(2.1)%
Weighted average	17,289	16,594	695	4.2 %
Occupancy rate (weighted average)	88.7 %	89.8 %	(1.1)%	(1.2)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$3,573	\$3,472	\$ 101	2.9 %
Assisted Living				
Number of communities (period end)	832	841	(9)	(1.1)%
Total units ⁽²⁾				
Period end	54,550	55,288	(738)	(1.3)%
Weighted average	54,592	45,260	9,332	20.6 %
Occupancy rate (weighted average)	86.5 %	88.8 %	(2.3)%	(2.6)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$4,292	\$4,286	\$ 6	0.1 %
CCRCs - Rental				
Number of communities (period end)	45	45	—	—
Total units ⁽²⁾				
Period end	10,480	10,131	349	3.4 %
Weighted average	10,515	9,783	732	7.5 %
Occupancy rate (weighted average)	83.9 %	85.1 %	(1.2)%	(1.4)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$5,626	\$5,740	\$ (114)	(2.0)%
CCRCs - Entry Fee				
Number of communities (period end)	—	—	—	—
Total units ⁽²⁾				
Period end	—	—	—	—
Weighted average	—	2,954	(2,954)	(100.0)%
Occupancy rate (weighted average)	—	87.0 %	(87.0)%	(100.0)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$—	\$5,085	\$ (5,085)	(100.0)%

Management Services

Number of communities (period end)	157	161	(4)	(2.5)%
Total units ⁽²⁾				
Period end	26,566	27,369	(803)	(2.9)%
Weighted average	26,590	20,919	5,671	27.1%
Occupancy rate (weighted average)	85.8%	86.3%	(0.5)%	(0.6)%

Brookdale Ancillary Services

Outpatient Therapy treatment codes	612,970	762,993	(150,023)	(19.7%)
Home Health average census	14,126	10,314	3,812	37.0%

(1) Management services segment revenue includes management fees and reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.

(2) Period end units operated excludes equity homes. Weighted average units operated represents the average units operated during the period, excluding equity homes.

Senior Housing average monthly revenue per unit represents the average of the total monthly resident fee revenues, (3)excluding amortization of entrance fees and Brookdale Ancillary Services segment revenue, divided by average occupied units.

Resident Fees

Resident fee revenue increased \$84.6 million, or 8.9%, over the prior year period primarily due to the inclusion of revenue from communities acquired and new units added to existing communities since the beginning of the prior year period (including communities acquired as part of the Emeritus transaction), partially offset by the effect of the contribution of entry fee communities to the CCRC Venture. During the current period, revenues increased 0.6% at the 512 communities we owned or leased during both periods (excluding communities acquired during the prior period) with a 2.8% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy decreased 190 basis points in these 512 communities period over period.

Retirement Centers segment revenue increased \$9.2 million, or 5.9%, primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$8.7 million to the increase in revenue. Additionally, revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by the reclassification of one community from this segment to the CCRCs - Rental segment subsequent to the prior year period and by a decrease in occupancy at the communities we operated during both periods.

Assisted Living segment revenue increased \$91.8 million, or 17.8%, primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$89.8 million to the increase in revenue. Additionally, revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs - Rental segment revenue increased \$5.5 million, or 3.8%, primarily due to the reclassification of one community into this segment subsequent to the prior period and the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$1.1 million to the increase in revenue. Additionally, revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

Brookdale Ancillary Services segment revenue increased \$22.3 million, or 23.3%, primarily due to the inclusion of revenue related to Nurse on Call, which we acquired as part of our acquisition of Emeritus. The inclusion of Nurse on Call revenue since July 31, 2014 contributed \$13.9 million to the increase in revenue. Additionally, revenue increased due to an increase in home health average census and the roll-out of our home health and hospice services to additional units subsequent to the prior year period. The increase was partially offset by a decrease in therapy service volume.

Management Services

Management services segment revenue, including management fees and reimbursed costs incurred on behalf of managed communities, increased \$70.3 million, or 54.8%, primarily due to our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

Facility Operating Expense

Facility operating expense increased over the prior year period primarily due to the impact of our acquisition of Emeritus.

Retirement Centers segment operating expenses increased \$6.1 million, or 6.9%, primarily due to the inclusion of operating expenses from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$5.2 million to the increase in operating expense. Additionally, operating expenses increased at the communities we operated during both periods, driven by an increase in salaries and wages due to wage rate increases. The increase was partially offset by the reclassification of one community from this segment to the CCRCs - Rental segment subsequent to the prior year period.

27

Assisted Living segment operating expenses increased \$68.7 million, or 20.9%, primarily due to the inclusion of operating expenses from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$68.0 million to the increase in operating expense.

CCRCs - Rental segment operating expenses decreased \$1.4 million, or 1.3%, primarily due to decreases in operating expenses at the communities operated during both periods, including a reduction in salaries and wages mainly attributed to time spent by community personnel on integration-related activities including system conversions during the current year period, which are included in general and administrative expense, and the disposition of one community subsequent to the prior year period. These reductions were partially offset by the reclassification of one community into this segment subsequent to the prior period and the inclusion of operating expenses from communities acquired during 2014.

Brookdale Ancillary Services segment operating expenses increased \$23.0 million, or 29.8%, primarily due to the inclusion of expenses related to Nurse on Call, which we acquired as part of our acquisition of Emeritus. The inclusion of Nurse on Call expenses since July 31, 2014 contributed \$12.5 million to the increase in expenses. Additionally, expense increased in connection with higher census and increased salaries and wage expense as additional employees are hired to roll out services to communities acquired as part of the Emeritus transaction.

General and Administrative Expense

General and administrative expense increased \$9.5 million, or 10.6%, over the prior year period primarily as a result of an increase in integration and transaction-related costs and an increase in non-cash stock based compensation expense. Integration and transaction-related costs include third party expenses directly related to the integration of Emeritus and corporate capital assessment activities (including shareholder relations advisory matters), as well as internal costs such as labor, reflecting time spent by our personnel on integration, EMR roll-out and transaction activity and severance costs.

Transaction Costs

During the three months ended September 30, 2014 we recognized \$41.6 million of transaction costs, primarily comprised of transaction fees and direct acquisition costs related to the acquisition of Emeritus and completion of the transactions with HCP during 2014 and include expenses such as lender costs and legal, banking, accounting and consulting fees.

Depreciation and Amortization

Depreciation and amortization expense decreased \$18.3 million, or 10.2%, primarily as a result of resident in-place lease intangibles acquired in our acquisition of Emeritus becoming fully amortized during the current year period and the impact of the contribution of previously owned communities to the CCRC Venture in August 2014. The decrease was partially offset by the impact of the acquisition of Emeritus.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$66.1 million, or 56.0%, primarily due to our assumption of new management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

Interest Expense

Interest expense increased \$18.8 million, or 23.7%, primarily due to our assumption of Emeritus debt and capital and financing lease obligations, which increased interest expense by \$2.8 million and \$13.2 million, respectively (including the impact of non-cash interest expense related to debt discounts and premiums recorded).

28

Income Taxes

The difference in our effective tax rates for the three months ended September 30, 2015 and 2014 was primarily due to changes in our financial results under generally accepted accounting principles and the reversal of the majority of our valuation allowance which occurred during the quarter ended September 30, 2014. We recorded an aggregate deferred federal, state and local tax benefit of \$31.6 million as a result of the operating loss for the three months ended September 30, 2015. We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Accordingly, we recorded an additional valuation allowance of \$7.1 million in the three months ended September 30, 2015 related to tax credits. If we continue our trend of increasing losses before income taxes, the valuation allowance may be increased in future periods. Our valuation allowance as of September 30, 2015 and December 31, 2014 is \$16.3 million and \$9.2 million, respectively.

Our current tax expense continues to mainly reflect our cash position for states that do not allow for or have suspended the use of net operating losses for the period.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the three months ended September 30, 2015 which are included in income tax benefit for the period. Tax returns for years 2011 through 2014 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Comparison of Nine Months ended September 30, 2015 to September 30, 2014

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

Our results reflect our acquisition of Emeritus subsequent to July 31, 2014, the closing date of the merger. In addition, with respect to the communities contributed to the CCRC Venture and HCP 49 Venture and communities subject to amended lease terms, our results reflect our previously existing ownership, lease and/or management interests through August 29, 2014, and reflect our venture and management interests and amended lease terms for the subsequent periods. We contributed all but two of our legacy Brookdale entry fee CCRCs to the CCRC Venture on August 29, 2014, at which time the contributed CCRCs were deconsolidated. The results of the entry fee CCRCs contributed to the CCRC Venture are reported in the CCRCs - Entry Fee segment for the time periods prior to being contributed to the CCRC Venture. The results of the two legacy Brookdale entry fee CCRCs that were not contributed to the CCRC Venture are included in the CCRCs - Entry Fee segment for the six month period ended June 30, 2014 and the CCRCs - Rental segment for the periods subsequent to June 30, 2014.

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

Subsequent to September 30, 2014, one community was moved from the Retirement Centers segment to the CCRCs - Rental segment to more accurately reflect the underlying product offering of the community. The movement did not change our reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers and CCRCs - Rental segments. Revenue and expenses for the nine months ended September 30, 2014 have not been recast.

(dollars in thousands, except average monthly revenue per unit)	Nine Months Ended September 30,		Increase (Decrease)	%	
	2015	2014		Increase (Decrease)	Increase (Decrease)
Statement of Operations Data:					
Revenue					
Resident fees					
Retirement Centers	\$492,310	\$421,017	\$71,293	16.9	%
Assisted Living	1,837,575	1,071,301	766,274	71.5	%
CCRCs – Rental	457,124	340,230	116,894	34.4	%
CCRCs – Entry Fee	—	202,414	(202,414)	(100.0)%
Brookdale Ancillary Services	349,283	224,377	124,906	55.7	%
Total resident fees	3,136,292	2,259,339	876,953	38.8	%
Management services ⁽¹⁾	588,614	320,264	268,350	83.8	%
Total revenue	3,724,906	2,579,603	1,145,303	44.4	%
Expense					
Facility operating expense					
Retirement Centers	279,408	240,691	38,717	16.1	%
Assisted Living	1,179,497	673,909	505,588	75.0	%
CCRCs – Rental	341,298	253,215	88,083	34.8	%
CCRCs – Entry Fee	—	153,981	(153,981)	(100.0)%
Brookdale Ancillary Services	291,397	180,573	110,824	61.4	%
Total facility operating expense	2,091,600	1,502,369	589,231	39.2	%
General and administrative expense	278,609	181,693	96,916	53.3	%
Transaction costs	7,163	59,224	(52,061)	(87.9)%
Facility lease expense	276,953	231,361	45,592	19.7	%
Depreciation and amortization	606,787	320,403	286,384	89.4	%
Loss on facility lease termination	76,143	—	76,143	NM	
Costs incurred on behalf of managed communities	543,984	294,945	249,039	84.4	%
Total operating expense	3,881,239	2,589,995	1,291,244	49.9	%
Loss from operations	(156,333)	(10,392)	145,941	NM	
Interest income	1,208	998	210	21.0	%
Interest expense					
Debt	(130,004)	(85,898)	44,106	51.3	%
Capital and financing lease obligations	(159,463)	(53,125)	106,338	200.2	%
Amortization of deferred financing costs and debt premium (discount)	(835)	(7,907)	(7,072)	(89.4)%
Change in fair value of derivatives	(790)	(2,179)	(1,389)	(63.7)%
Debt modification and extinguishment costs	(6,780)	(3,766)	3,014	80.0	%
Equity in (loss) earnings of unconsolidated ventures	(766)	913	(1,679)	(183.9)%
Other non-operating income	8,234	4,621	3,613	78.2	%
Loss before income taxes	(445,529)	(156,735)	288,794	184.3	%
Benefit for income taxes	161,677	114,105	47,572	41.7	%
Net loss	(283,852)	(42,630)	241,222	NM	

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

Net loss attributable to noncontrolling interest	634	174	460	264.4	%
Net loss attributable to Brookdale Senior Living Inc. common stockholders	\$(283,218)	\$(42,456)	\$240,762	NM	

30

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

Nine Months Ended
September 30,

	2015	2014	Increase (Decrease)	% Increase (Decrease)
Selected Operating and Other Data:				
Total number of communities (period end)	1,132	1,147	(15)	(1.3)%
Total units operated ⁽²⁾				
Period end	108,887	110,455	(1,568)	(1.4)%
Weighted average	109,571	76,520	33,051	43.2 %
Owned/leased communities units⁽²⁾				
Period end	82,321	83,086	(765)	(0.9)%
Weighted average	82,614	57,266	25,348	44.3 %
Owned/leased communities occupancy rate (weighted average)	86.8 %	88.4 %	(1.6)%	(1.8)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$4,313	\$4,423	\$ (110)	(2.5)%
Selected Segment Operating and Other Data:				
Retirement Centers				
Number of communities (period end)	98	100	(2)	(2.0)%
Total units ⁽²⁾				
Period end	17,291	17,667	(376)	(2.1)%
Weighted average	17,312	14,972	2,340	15.6 %
Occupancy rate (weighted average)	88.6 %	89.4 %	(0.8)%	(0.9)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$3,565	\$3,496	\$ 69	2.0 %
Assisted Living				
Number of communities (period end)	832	841	(9)	(1.1)%
Total units ⁽²⁾				
Period end	54,550	55,288	(738)	(1.3)%
Weighted average	54,789	30,053	24,736	82.3 %
Occupancy rate (weighted average)	86.7 %	89.0 %	(2.3)%	(2.6)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$4,297	\$4,448	\$ (151)	(3.4)%
CCRCs - Rental				
Number of communities (period end)	45	45	-	0.0 %
Total units ⁽²⁾				
Period end	10,480	10,131	349	3.4 %
Weighted average	10,513	7,569	2,944	38.9 %
Occupancy rate (weighted average)	84.5 %	85.8 %	(1.3)%	(1.5)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$5,689	\$5,812	\$ (123)	(2.1)%
CCRCs - Entry Fee				
Number of communities (period end)	—	—	—	—
Total units ⁽²⁾				
Period end	—	—	—	—
Weighted average	—	4,672	(4,672)	(100.0)%
Occupancy rate (weighted average)	—	85.2 %	(85.2)%	(100.0)%
Senior Housing average monthly revenue per unit ⁽³⁾	\$—	\$5,103	\$ (5,103)	(100.0)%

Management Services

Number of communities (period end)	157	161	(4)	(2.5)%
Total units ⁽²⁾				
Period end	26,566	27,369	(803)	(2.9)%
Weighted average	26,957	19,254	7,703	40.0%
Occupancy rate (weighted average)	85.8%	85.9%	(0.1)%	(0.1)%

Brookdale Ancillary Services

Outpatient Therapy treatment codes	1,917,219	2,374,379	(457,160)	(19.3%)
Home Health average census	13,926	6,885	7,041	102.3%

(1) Management services segment revenue includes management fees and reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.

(2) Period end units operated excludes equity homes. Weighted average units operated represents the average units operated during the period, excluding equity homes.

Senior Housing average monthly revenue per unit represents the average of the total monthly resident fee revenues, (3)excluding amortization of entrance fees and Brookdale Ancillary Services segment revenue, divided by average occupied units.

Resident Fees

Resident fee revenue increased \$877.0 million, or 38.8%, over the prior year period primarily due to the inclusion of revenue from communities acquired and new units added to existing communities since the beginning of the prior year period (including communities acquired as part of the Emeritus transaction), partially offset by the effect of the contribution of entry fee communities to the CCRC Venture. During the current period, revenues grew 1.7% at the 507 communities we owned or leased during both periods (excluding communities acquired during the prior period) with a 3.6% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy decreased 160 basis points in these 507 communities period over period.

Retirement Centers segment revenue increased \$71.3 million, or 16.9%, primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$67.0 million to the increase in revenue. Additionally, revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by the reclassification of one community from this segment to the CCRCs - Rental segment subsequent to the prior year period and by a decrease in occupancy at the communities we operated during both periods.

Assisted Living segment revenue increased \$766.3 million, or 71.5%, primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$753.9 million to the increase in revenue. Additionally, revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs - Rental segment revenue increased \$116.9 million, or 34.4%, primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$72.9 million to the increase in revenue. Additionally, revenues increased due to the reclassification of three communities into this segment subsequent to the beginning of the prior year period and revenues increased at the communities we operated during both periods, primarily due to an increase in average monthly revenue per unit. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

Brookdale Ancillary Services segment revenue increased \$124.9 million, or 55.7%, primarily due to the inclusion of revenue related to Nurse on Call, which we acquired as part of our acquisition of Emeritus. The inclusion of Nurse on Call revenue since July 31, 2014 contributed \$106.4 million to the increase in revenue. Additionally, revenue increased due to an increase in home health average census and the roll-out of our home health and hospice services to additional units subsequent to the prior year period. The increase was partially offset by a decrease in therapy service volume.

Management Services

Management services segment revenue, including management fees and reimbursed costs incurred on behalf of managed communities, increased \$268.4 million, or 83.8%, primarily due to our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

Facility Operating Expense

Facility operating expense increased over the prior year period primarily due to the impact of our acquisition of Emeritus.

Retirement Centers segment operating expenses increased \$38.7 million, or 16.1%, primarily due to the inclusion of operating expenses from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$35.8 million to the increase in operating expense. Additionally, operating expenses increased at the communities we operated during both periods, driven by an increase in salaries and wages due to wage rate increases. The increase was partially offset by the reclassification of one community from this segment to the CCRCs - Rental segment subsequent to the prior year period.

Assisted Living segment operating expenses increased \$505.6 million, or 75.0%, primarily due to the inclusion of operating expenses from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$499.3 million to the increase in operating expense. Additionally, operating expenses increased at the communities we operated during both periods, driven by an increase in salaries and wages due to wage rate increases and increases in employee health insurance and advertising costs. The increase was partially offset by the impact of rebates received, mainly on food purchases, as the level of rebates we have experienced has increased with our volume of spend.

CCRCs - Rental segment operating expenses increased \$88.1 million, or 34.8%, primarily due to the inclusion of operating expenses from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed \$55.2 million to the increase in operating expense. Additionally, operating expenses increased due to the reclassification of three communities into this segment subsequent to the beginning of the prior year period and operating expenses increased at the communities we operated during both periods, primarily due to an increase in salaries and wages due to wage rate increases.

Brookdale Ancillary Services segment operating expenses increased \$110.8 million, or 61.4%, primarily due to the inclusion of expenses related to Nurse on Call, which we acquired as part of our acquisition of Emeritus. The inclusion of Nurse on Call expenses since July 31, 2014 contributed \$87.3 million to the increase in expenses. Additionally, expense increased in connection with higher census and increased salaries and wage expense as additional employees are hired to roll out services to communities acquired as part of the Emeritus transaction.

General and Administrative Expense

General and administrative expense increased \$96.9 million, or 53.3%, over the prior year period primarily as a result of an increase in integration and transaction-related costs and the addition of employees associated with our acquisition of Emeritus. Integration and transaction-related costs include third party expenses directly related to the integration of Emeritus and corporate capital assessment activities (including shareholder relations advisory matters), as well as internal costs such as labor, reflecting time spent by our personnel on integration, EMR roll-out and transaction activity and severance costs.

Transaction Costs

Transaction costs for the nine months ended September 30, 2015 were \$7.2 million, a decrease from \$59.2 million in the prior year period. Transaction costs in the prior year period are primarily comprised of transaction fees and direct acquisition costs related to the acquisition of Emeritus and the completion of the transactions with HCP during 2014 and include expenses such as lender costs and legal, banking, accounting and consulting fees. Transaction costs in the current year period primarily relate to direct costs related to acquisition and community leasing activity.

Facility Lease Expense

Facility lease expense increased \$45.6 million, or 19.7%, primarily due to the inclusion of lease expense from leases assumed as part of our acquisition of Emeritus.

Depreciation and Amortization

Depreciation and amortization expense increased \$286.4 million, or 89.4%, primarily due to the acquisition of communities since the prior year period, driven by amortization of in-place lease intangibles acquired as part of our acquisition of Emeritus, partially offset by the contribution of previously owned communities to the CCRC Venture in August 2014.

Loss on Facility Lease Termination

A loss on facility lease termination of \$76.1 million was recognized during the nine months ended September 30, 2015 for the difference between the amount paid to acquire the underlying real estate associated with 15 communities that were previously leased and the estimated fair value of the communities, net of the deferred lease liabilities previously recognized.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$249.0 million, or 84.4%, primarily due to our assumption of new management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

33

Interest Expense

Interest expense increased \$142.0 million, or 95.2%, primarily due to our assumption of Emeritus debt and capital and financing lease obligations, which increased interest expense by \$29.3 million and \$107.6 million, respectively (including the impact of non-cash interest expense related to debt discounts and premiums recorded).

Income Taxes

The difference in our effective tax rates for the nine months ended September 30, 2015 and 2014 was primarily due to changes in our financial results under generally accepted accounting principles and the reversal of the majority of our valuation allowance which occurred during the quarter ended September 30, 2014. We recorded an aggregate deferred federal, state and local tax benefit of \$164.0 million as a result of the operating loss for the nine months ended September 30, 2015. We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized.

Accordingly, we recorded an additional valuation allowance of \$7.1 million in the three months ended September 30, 2015 related to tax credits. If we continue our trend of increasing losses before income taxes, the valuation allowance may be increased in future periods. Our valuation allowance as of September 30, 2015 and December 31, 2014 is \$16.3 million and \$9.2 million, respectively.

Our current tax expense continues to mainly reflect our cash position for states that do not allow for or have suspended the use of net operating losses for the period.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the nine months ended September 30, 2015 which are included in income tax benefit for the period. Tax returns for years 2011 through 2014 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Liquidity and Capital Resources

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

	Nine Months Ended	
	September 30,	
	2015	2014
Cash provided by operating activities	\$202,185	\$156,848
Cash used in investing activities	(498,302)	(216,784)
Cash provided by financing activities	262,425	239,749
Net (decrease) increase in cash and cash equivalents	(33,692)	179,813
Cash and cash equivalents at beginning of period	104,083	58,511
Cash and cash equivalents at end of period	\$70,391	\$238,324

The increase in cash provided by operating activities of \$45.3 million was attributable primarily to the inclusion of Emeritus' operating results.

The increase in cash used in investing activities of \$281.5 million was primarily attributable to our acquisition of 17 previously leased communities in the current year period. Additionally, there was an increase in spending on property, plant and equipment and leasehold intangibles and an increase in investments in unconsolidated ventures.

The increase in cash provided by financing activities of \$22.7 million was primarily attributable to the proceeds from draws on our secured credit facility and mortgage debt incurred in connection with certain acquisitions during the current year period. The prior year period included the receipt of \$330.4 million of net proceeds from a public equity offering of approximately 10.3 million shares of common stock.

Our principal sources of liquidity have historically been from:

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

34

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

Our liquidity requirements have historically arisen from:

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

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

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense and supply costs;
- debt service and lease payments;
- acquisition consideration and transaction and integration costs;
- capital expenditures and improvements, including the expansion, renovation, redevelopment and repositioning of our existing communities;
- cash funding needs of our unconsolidated ventures for operating, capital expenditure and financing needs; and
- other corporate initiatives (including integration, information systems and branding).

We are highly leveraged and have significant debt and lease obligations. As of September 30, 2015, we have three principal corporate-level debt obligations: our \$500.0 million secured credit facility, our \$316.3 million 2.75% convertible senior notes due 2018, and our separate secured and unsecured letter of credit facilities providing for up to \$115.6 million of letters of credit in the aggregate. The remainder of our indebtedness is generally comprised of approximately \$3.2 billion of non-recourse property-level mortgage financings as of September 30, 2015.

At September 30, 2015, we had \$3.9 billion of debt outstanding, including \$310.0 million drawn on our secured credit facility and excluding capital and financing lease obligations, at a weighted-average interest rate of 4.7% (calculated using an imputed interest rate of 7.5% for our 2.75% convertible senior notes due 2018). At September 30, 2015, we had \$2.6 billion of capital and financing lease obligations and \$83.9 million of letters of credit had been issued under our letter of credit facilities. Approximately \$150.4 million of our debt and capital and financing lease obligations are due on or before September 30, 2016. We also have substantial operating lease obligations and capital expenditure requirements. For the year ending September 30, 2016 we will be required to make approximately \$382.1 million of payments in connection with our existing operating leases.

At September 30, 2015, we had \$238.0 million of negative working capital. We had \$70.4 million of cash and cash equivalents at September 30, 2015, excluding cash and escrow deposits-restricted and lease security deposits of \$131.2 million in the aggregate. As of that date, we also had \$133.4 million of availability on our secured credit facility. Due to the nature of our business, it is not unusual to operate in the position of negative working capital because we collect revenues much more quickly, often in advance, than we are required to pay obligations, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations result in a very low level of current assets primarily stemming from our deployment of cash to pursue

strategic business development opportunities or to pay down long-term liabilities.

35

The following table summarizes our actual capital expenditures for the nine months ended September 30, 2015 as well as our anticipated capital expenditures for the year ended December 31, 2015 for our consolidated communities (dollars in millions):

	Actual Nine Months Ended September 30, 2015	Anticipated 2015 Range
Recurring ^{(1) (2)}	\$ 53.2	\$70.0 - 75.0
EBITDA-enhancing / Major Projects ⁽²⁾	140.3	200.0 - 210.0
Program Max ⁽²⁾	46.8	70.0 - 80.0
Corporate, integration and other ⁽³⁾	61.5	95.0 - 100.0
Total capital expenditures	\$ 301.8	\$435.0 - 465.0

(1) Payments are included in Cash From Facility Operations.

(2) Amounts shown are gross capital expenditures. Certain capital expenditures are subject to third party lessor funding. For the nine months ended September 30, 2015 we received \$61.1 million of lessor reimbursements, of which \$6.3 million relates to recurring capital expenditures. For the full year 2015 we anticipate receiving approximately \$80.0 million - \$95.0 million of lessor reimbursements.

(3) Includes \$19.6 million of deferred capital expenditures related to the Emeritus merger.

During 2015, we anticipate that our capital expenditures will be funded from cash on hand, cash flows from operations, lessor reimbursements in the amount of \$80.0 million to \$95.0 million, amounts drawn on construction loans and amounts drawn on our secured credit facility.

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

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

Our actual liquidity and capital funding requirements depend on numerous factors, including our operating results, the actual level of capital expenditures, our expansion, development and acquisition activity, general economic conditions and the cost of capital. Shortfalls in cash flows from operating results or other principal sources of liquidity may have an adverse impact on our ability to execute our business and growth strategies. Volatility in the credit and financial markets may also have an adverse impact on our liquidity by making it more difficult for us to obtain financing or

refinancing. As a result, this may impact our ability to grow our business, maintain capital spending levels, expand certain communities, or execute other aspects of our business strategy. In order to continue some of these activities at historical or planned levels, we may incur additional indebtedness or lease financing to provide additional funding. There can be no assurance that any such additional financing will be available or on terms that are acceptable to us.

As of September 30, 2015, we are in compliance with the financial covenants of our outstanding debt and lease agreements.

36

Credit Facilities

On December 19, 2014, we entered into a Fourth Amended and Restated Credit Agreement with General Electric Capital Corporation, as administrative agent, lender and swingline lender, and the other lenders from time to time parties thereto. The amended credit agreement amended and restated in its entirety our previously existing Third Amended and Restated Credit Agreement dated as of September 20, 2013, which provided a total commitment amount of \$250.0 million. The amended agreement provides for a total commitment amount of \$500.0 million, comprised of a \$100.0 million term loan drawn at closing and a \$400.0 million revolving credit facility (with a \$50.0 million sublimit for letters of credit and a \$50.0 million swingline feature to permit same day borrowing) and an option to increase the revolving credit facility by an additional \$250.0 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. In addition, the amended credit agreement extended the maturity date from March 31, 2018 to January 3, 2020 and decreased the interest rate payable on drawn amounts and the fee payable on the unused portion of the facility. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the amended agreement reduces the applicable margin from a range of 3.25% to 4.25% to a range of 2.50% to 3.50%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.50% margin at utilization equal to or lower than 35%, a 3.25% margin at utilization greater than 35% but less than or equal to 50%, and a 3.50% margin at utilization greater than 50%. The amended agreement also eliminates the minimum 0.5% LIBOR rate included in the prior agreement. The amended agreement reduces the quarterly commitment fee on the unused portion of the facility from 0.50% per annum to 0.25% per annum when the outstanding amount of obligations (including revolving credit, swingline and term loans and letter of credit obligations) is greater than or equal to 50% of the total commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the total commitment amount.

This secured credit facility may be used to finance acquisitions, fund working capital and capital expenditures and for other general corporate purposes.

The credit facility will continue to be secured by first priority mortgages on certain of our communities. In addition, the amended agreement permits us to pledge the equity interests in subsidiaries that own other communities (rather than mortgaging such communities), provided that loan availability from pledged assets cannot exceed 10% of loan availability from mortgaged assets. The availability under the line will vary from time to time as it is based on borrowing base calculations related to the appraised value and performance of the communities securing the facility

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

As of September 30, 2015, we had \$310.0 million drawn on our secured credit facility and \$133.4 million of availability. We also had secured and unsecured letter of credit facilities of up to \$115.6 million in the aggregate as of September 30, 2015. Letters of credit totaling \$83.9 million had been issued under these facilities as of that date.

Contractual Commitments

Significant ongoing commitments consist primarily of leases, debt, purchase commitments and certain other long-term liabilities. For a summary and complete presentation and description of our ongoing commitments and contractual obligations, see the "Contractual Commitments" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on February 25, 2015.

There have been no material changes outside the ordinary course of business in our contractual commitments during the nine months ended September 30, 2015. See Note 4 and Note 8 to the condensed consolidated financial statements for community acquisitions and financing transactions that were completed during the period.

Off-Balance Sheet Arrangements

As of September 30, 2015, we do not have an interest in any "off-balance sheet arrangements" (as defined in Item 303(a)(4) of Regulation S-K) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

We own interests in certain unconsolidated ventures as described under Note 13 to the condensed consolidated financial statements. Except in limited circumstances, our risk of loss is limited to our investment in each venture. We also own interests in certain other unconsolidated ventures that are not considered variable interest entities. The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures.

37

Non-GAAP Financial Measures

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

Adjusted EBITDA

Definition of Adjusted EBITDA

We define Adjusted EBITDA as follows:

Net income (loss) before:

- provision (benefit) for income taxes;
- non-operating (income) expense items;
- (gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination);
- depreciation and amortization (including non-cash impairment charges);
- straight-line lease expense (income), net of amortization of (above) below market rents;
- amortization of deferred gain;
- amortization of deferred entrance fees;
- non-cash stock-based compensation expense; and

• change in future service obligation;

and including:

• Cash From Facility Operations ("CFFO" as defined below) from unconsolidated ventures; and

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

Management's Use of Adjusted EBITDA

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

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

38

Limitations of Adjusted EBITDA

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

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

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

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

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

The definition of Adjusted EBITDA was changed in the first quarter of 2015 to include CFFO from unconsolidated ventures. The prior periods have been recast to conform to the new definition.

The table below shows the reconciliation of our net loss to Adjusted EBITDA for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2014 ⁽¹⁾
Net loss	\$(68,336)	\$(37,036)	\$(283,852)	\$(42,630)
Benefit for income taxes	(30,796)	(116,073)	(161,677)	(114,105)
Equity in loss (earnings) of unconsolidated ventures	1,578	1,246	766	(913)
Debt modification and extinguishment costs	6,736	569	6,780	3,766
Other non-operating income	(3,089)	(700)	(8,234)	(4,621)
Interest expense:				
Debt	43,972	38,452	130,004	85,898
Capital and financing lease obligations	53,217	40,916	159,463	53,125
Amortization of deferred financing costs and debt (premium) discount	616	(189)	835	7,907
Change in fair value of derivatives	164	10	790	2,179
Interest income	(399)	(392)	(1,208)	(998)
Income (loss) from operations	3,663	(73,197)	(156,333)	(10,392)
Depreciation and amortization	160,715	178,999	606,787	320,403

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

Loss on facility lease termination	—	—	76,143	—
Straight-line lease expense	1,731	2,840	6,451	2,400
Amortization of (above) below market lease, net	(1,626)	(1,377)	(5,425)	(1,377)
Amortization of deferred gain	(1,093)	(1,093)	(3,279)	(3,279)
Amortization of entrance fees	(619)	(5,757)	(2,316)	(20,506)
Non-cash stock-based compensation expense	10,147	7,869	25,871	23,170
Entrance fee receipts ⁽²⁾	4,498	9,576	10,397	50,459
Entrance fee disbursements	(1,434)	(7,668)	(3,251)	(25,327)
CFFO from unconsolidated ventures	15,481	9,435	40,871	13,672
Adjusted EBITDA	\$ 191,463	\$ 119,627	\$ 595,916	\$ 349,223

39

The calculation of Adjusted EBITDA includes integration, transaction, transaction-related and EMR roll-out costs of \$35.8 million and \$92.1 million for the three and nine months ended September 30, 2015, respectively. The calculation of Adjusted EBITDA includes integration, transaction, transaction-related and EMR roll-out costs of \$76.6 million and \$100.4 million for the three and nine months ended September 30, 2014, respectively.

(1) Integration, transaction-related and EMR roll-out costs include third party expenses directly related to the integration of Emeritus and corporate capital structure assessment activities (including shareholder relations advisory matters) as well as internal costs such as labor reflecting time spent by Company personnel on integration, EMR roll-out and transaction-related activity and severance costs. Transaction costs include third party costs directly related to the acquisition of Emeritus and other acquisition and community leasing activity and are primarily comprised of legal, finance, consulting, professional fees and other third party costs.

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

Cash From Facility Operations

Definition of Cash From Facility Operations

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

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

• changes in operating assets and liabilities;

• deferred interest and fees added to principal;

• refundable entrance fees received;

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

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

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

• gain (loss) on facility lease termination;

• recurring capital expenditures, net;

• distributions from unconsolidated ventures from cumulative share of net earnings;

• CFFO from unconsolidated ventures; and

• other.

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

Management's Use of Cash From Facility Operations

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

40

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

Limitations of Cash From Facility Operations

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

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

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

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

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

The table below shows the reconciliation of net cash provided by operating activities to CFFO for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2014 ⁽¹⁾
Net cash provided by operating activities	\$91,361	\$12,634	\$202,185	\$156,848

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

Changes in operating assets and liabilities	(6,324)	29,620	10,648	55,709
Refundable entrance fees received	924	3,388	1,510	20,330
Entrance fee refunds disbursed	(1,434)	(7,668)	(3,251)	(25,327)
Recurring capital expenditures, net	(14,531)	(13,199)	(46,959)	(34,409)
Lease financing debt amortization with fair market value or no purchase options	(12,852)	(10,710)	(38,047)	(18,590)
Loss on facility lease termination	—	—	76,143	—
Distributions from unconsolidated ventures from cumulative share of net earnings	(6,375)	(595)	(7,825)	(1,210)
CFFO from unconsolidated ventures	15,481	9,435	40,871	13,672
Cash From Facility Operations	\$66,250	\$22,905	\$235,275	\$167,023

41

The calculation of Cash From Facility Operations includes integration, transaction, transaction-related and EMR roll-out costs of \$42.5 million and \$98.8 million for the three and nine months ended September 30, 2015, respectively. The calculation of Cash From Facility Operations includes integration, transaction, transaction-related and EMR roll-out costs of \$76.6 million and \$100.4 million for the three and nine months ended September 30, 2014, respectively. Integration, transaction-related and EMR roll-out costs include third party expenses directly (1) related to the integration of Emeritus, community financing activity, corporate capital structure assessment activities (including shareholder relations advisory matters) as well as internal costs such as labor reflecting time spent by Company personnel on integration, EMR roll-out and transaction-related activity and severance costs. Transaction costs include third party costs directly related to the acquisition of Emeritus and other acquisition and community financing activity and are primarily comprised of legal, finance, consulting, professional fees and other third party costs.

Facility Operating Income

Definition of Facility Operating Income

We define Facility Operating Income as follows:

Net income (loss) before:

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

Management's Use of Facility Operating Income

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

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

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

42

Limitations of Facility Operating Income

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

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

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

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

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

The table below shows the reconciliation of net loss to Facility Operating Income for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$(68,336)	\$(37,036)	\$(283,852)	\$(42,630)
Benefit for income taxes	(30,796)	(116,073)	(161,677)	(114,105)
Equity in loss (earnings) of unconsolidated ventures	1,578	1,246	766	(913)
Debt modification and extinguishment costs	6,736	569	6,780	3,766
Other non-operating income	(3,089)	(700)	(8,234)	(4,621)
Interest expense:				
Debt	43,972	38,452	130,004	85,898
Capital and financing lease obligations	53,217	40,916	159,463	53,125
Amortization of deferred financing costs and debt (premium) discount	616	(189)	835	7,907
Change in fair value of derivatives	164	10	790	2,179
Interest income	(399)	(392)	(1,208)	(998)
Income (loss) from operations	3,663	(73,197)	(156,333)	(10,392)
Depreciation and amortization	160,715	178,999	606,787	320,403
Facility lease expense	91,144	91,462	276,953	231,361
General and administrative (including non-cash stock-based compensation expense)	99,534	90,020	278,609	181,693

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

Transaction costs	—	41,572	7,163	59,224
Loss on facility lease termination	—	—	76,143	—
Amortization of entrance fees	(619)	(5,757)	(2,316)	(20,506)
Management fees	(14,694)	(10,428)	(44,630)	(25,319)
Facility Operating Income	\$339,743	\$312,671	\$1,042,376	\$736,464

43

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks from changes in interest rates charged on our credit facilities, other floating-rate indebtedness and lease payments subject to floating rates. The impact on earnings and the value of our long-term debt and lease payments are subject to change as a result of movements in market rates and prices. As of September 30, 2015, we had approximately \$2.3 billion of long-term fixed rate debt, \$1.6 billion of long-term variable rate debt, including our secured credit facility, and \$2.6 billion of capital and financing lease obligations. As of September 30, 2015, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.7% (calculated using an imputed interest rate of 7.5% for our \$316.3 million convertible senior notes due 2018).

We enter into certain interest rate cap agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of September 30, 2015, \$2.3 billion, or 59.0%, of our long-term debt, excluding our capital and financing lease obligations, has fixed rates. As of September 30, 2015, \$957.4 million, or 24.5%, of our long-term debt, excluding our capital and financing lease obligations, is subject to interest rate cap agreements. The remaining \$642.7 million, or 16.5%, of our debt is variable rate debt, not subject to any interest rate cap or swap agreements. A change in interest rates would have impacted our annual interest expense related to all outstanding variable rate debt, excluding our capital and financing lease obligations, as follows (after consideration of hedging instruments currently in place): a 100 basis point increase in interest rates would have an impact of \$16.1 million, a 500 basis point increase in interest rates would have an impact of \$72.6 million and a 1,000 basis point increase in interest rates would have an impact of \$106.1 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of September 30, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in Note 9 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

Item 1A. Risk Factors

The following risk factor reflects certain modifications of, or additions to, the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

We rely on reimbursement from governmental programs for a portion of our revenues, and will be subject to changes in reimbursement levels, 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. Beginning October 1, 2011, we were impacted by a reduction in the reimbursement rates for Medicare skilled nursing patients and home health patients, as well as a negative change in the allowable method for delivering therapy services to skilled nursing patients (resulting in increased therapy labor expense). In addition, certain per person annual limits on Medicare reimbursement for therapy services became effective in 2006, subject to certain exceptions. These exceptions are currently scheduled to expire on December 31, 2017. If these exceptions are modified or not extended beyond that date, our revenues and net operating income relating to our outpatient therapy services could be materially adversely impacted.

Effective October 1, 2012, certain Medicare Part B therapy services exceeding a specified threshold are subject to a pre-payment manual medical review process. The review process has had an adverse effect on the provision and billing of services for patients and could negatively impact therapist productivity. These Medicare Part B therapy cap exception requirements, including the applicable pre-approval requirements, could also negatively impact the revenues and net operating income relating to our outpatient therapy services business. Pursuant to the Medicare Access and CHIP Reauthorization Act of 2015, which was signed by the President on April 16, 2015, the manual review process will be replaced with a new review program to be developed by the Secretary of Health and Human Services.

In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. We cannot predict what action, if any, Congress will take on reimbursement policies of the Medicare program or what future rule changes the CMS will implement. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

Item 6. Exhibits

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

SIGNATURES

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

BROOKDALE SENIOR LIVING INC.
(Registrant)

By: /s/ Mark W. Ohlendorf
Name: Mark W. Ohlendorf
Title: President and Chief Financial Officer
(Principal Financial Officer)
Date: November 9, 2015

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of February 20, 2014, by and among Brookdale Senior Living Inc. (the "Company"), Emeritus Corporation and Broadway Merger Sub Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 21, 2014 (File No. 001-32641)).
2.2	Master Contribution and Transactions Agreement, dated as of April 23, 2014, by and between the Company and HCP, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2014 (File No. 001-32641)).
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 26, 2010 (File No. 001-32641)).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company, dated July 30, 2014 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 5, 2014 (File No. 001-32641)).
3.3	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 3, 2012 (File No. 001-32641)).
4.1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) filed on November 7, 2005 (File No. 333-127372)).
4.2	Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 14, 2011 (File No. 001-32641)).
4.3	Supplemental Indenture, dated as of June 14, 2011, between the Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 14, 2011 (File No. 001-32641)).
4.4	Form of 2.75% Convertible Senior Note due 2018 (included as part of Exhibit 4.3).
10.1	Amendment No. 2 to Severance Pay Policy, Tier I, adopted by the Company on August 3, 2015 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2015 (File No. 001-32641)).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.