Brookdale Senior Living Inc.
Form 10-Q
November 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2010

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 (State or other jurisdiction of incorporation or organization)	20-3068069 (I.R.S. Employer Identification No.)
111 Westwood Place, Suite 400, Brentwood, Tennessee (Address of principal executive offices)	37027 (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes £ 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	T
Non-accelerated filer	£ (Do not check if a smaller reporting company)	Smaller reporting company	£

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

As of November 2, 2010, 120,545,904 shares of the registrant's common stock, $0.01 par value, were outstanding (excluding unvested restricted shares).

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BROOKDALE SENIOR LIVING INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2010	December 31, 2009
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$68,961	$66,370
Cash and escrow deposits — restricted	112,340	109,977
Accounts receivable, net	83,606	75,816
Deferred tax asset	7,688	7,688
Prepaid expenses and other current assets, net	56,340	50,350
Total current assets	328,935	310,201
Property, plant and equipment and leasehold intangibles, net	3,753,707	3,857,774
Cash and escrow deposits — restricted	61,885	61,218
Investment in unconsolidated ventures	19,516	20,512
Goodwill	109,730	109,835
Other intangible assets, net	178,325	198,043
Other assets, net	85,965	87,928
Total assets	$4,538,063	$4,645,511
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$160,704	$166,185
Trade accounts payable	31,990	51,612
Accrued expenses	195,045	169,612
Refundable entrance fees and deferred revenue	309,155	290,673
Tenant security deposits	10,287	13,515
Total current liabilities	707,181	691,597
Long-term debt, less current portion	2,401,841	2,459,341
Deferred entrance fee revenue	68,988	69,306
Deferred liabilities	152,811	148,690
Deferred tax liability	114,031	140,313
Other liabilities	30,441	49,682
Total liabilities	3,475,293	3,558,929
Stockholders' Equity		
Preferred stock, $0.01 par value, 50,000,000 shares authorized at September 30, 2010 and December 31, 2009; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized at September 30, 2010 and December 31, 2009; 125,495,492 and 124,417,940 shares issued and 124,284,191 and 123,206,639 shares outstanding (including 3,739,559 and 3,915,330 unvested	1,243	1,232

restricted shares), respectively		
Additional paid-in-capital	1,898,909	1,882,377
Treasury stock, at cost; 1,211,301 shares at September 30, 2010 and December 31, 2009	(29,187)	(29,187)
Accumulated deficit	(807,740)	(766,975)
Accumulated other comprehensive loss	(455)	(865)
Total stockholders' equity	1,062,770	1,086,582
Total liabilities and stockholders' equity	$4,538,063	$4,645,511

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue				
Resident fees	$557,125	$503,856	$1,647,714	$1,499,544
Management fees	1,339	1,987	4,146	5,002
Total revenue	558,464	505,843	1,651,860	1,504,546
Expense				
Facility operating expense (excluding depreciation and amortization of $54,070, $45,851, $158,277 and $137,102, respectively)	368,936	328,939	1,077,311	963,637
General and administrative expense (including non-cash stock-based compensation expense of $5,823, $7,869, $15,799 and $21,549, respectively)	33,231	34,720	97,017	100,148
Facility lease expense	68,090	68,036	203,514	204,211
Depreciation and amortization	74,951	66,983	221,180	202,378
Facility lease termination expense	4,616	—	4,616	—
Total operating expense	549,824	498,678	1,603,638	1,470,374
Income from operations	8,640	7,165	48,222	34,172
Interest income	441	623	1,521	1,771
Interest expense:				
Debt	(33,357)	(30,574)	(100,540)	(96,845)
Amortization of deferred financing costs and debt discount	(2,244)	(2,167)	(7,250)	(7,099)
Change in fair value of derivatives and amortization	(176)	(2,478)	(5,023)	1,137
Loss on extinguishment of debt, net	(856)	(1,178)	(1,557)	(2,918)
Equity in earnings of unconsolidated ventures	272	42	788	1,218
Other non-operating (expense) income	(1,454)	(52)	(1,454)	4,172
Loss before income taxes	(28,734)	(28,619)	(65,293)	(64,392)
Benefit for income taxes	11,821	7,329	24,528	18,936
Net loss	$(16,913)	$(21,290)	$(40,765)	$(45,456)
Basic and diluted loss per share	$(0.14)	$(0.18)	$(0.34)	$(0.42)
Weighted average shares used in computing basic and diluted loss per share	120,404	118,455	119,817	108,807

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Amount	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balances at January 1, 2010	123,206	$ 1,232	$ 1,882,377	$ (29,187)	$ (766,975)	$ (865)	$ 1,086,582
Compensation expense related to restricted stock and restricted stock unit grants			15,799				15,799
Net loss					(40,765)		(40,765)
Issuance of common stock under Associate Stock Purchase Plan	48		744				744
Restricted stock, net	1,030	11	(11)				
Reclassification of net loss on derivatives into earnings						391	391
Amortization of payments from settlement of forward interest rate swaps						282	282
Other						(263)	(263)
Balances at September 30, 2010	124,284	$ 1,243	$ 1,898,909	$ (29,187)	$ (807,740)	$ (455)	$ 1,062,770

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2010	2009
Cash Flows from Operating Activities		
Net loss	$(40,765)	$(45,456)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt, net	1,557	2,918
Depreciation and amortization	228,430	209,477
Equity in earnings of unconsolidated ventures	(788)	(1,218)
Distributions from unconsolidated ventures from cumulative share of net earnings	375	455
Amortization of deferred gain	(3,258)	(3,259)
Amortization of entrance fees	(18,160)	(16,084)
Proceeds from deferred entrance fee revenue	27,716	23,225
Deferred income tax benefit	(26,544)	(19,440)
Change in deferred lease liability	8,109	12,073
Change in fair value of derivatives and amortization	5,023	(1,137)
Loss (gain) on sale of communities and investment in unconsolidated venture	1,548	(4,352)
Change in future service obligation	(1,064)	—
Non-cash stock-based compensation	15,799	21,549
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,480)	13,526
Prepaid expenses and other assets, net	(4,007)	(10,734)
Accounts payable and accrued expenses	5,721	29,557
Tenant refundable fees and security deposits	(2,720)	(14,297)
Deferred revenue	(5)	1,811
Other	(11,332)	(12,642)
Net cash provided by operating activities	179,155	185,972
Cash Flows from Investing Activities		
Decrease in lease security deposits and lease acquisition deposits, net	2,067	2,071
Increase in cash and escrow deposits — restricted	(2,567)	(54,694)
Net proceeds from the sale of property, plant and equipment	—	210
Additions to property, plant and equipment and leasehold intangibles, net of related payables	(70,604)	(87,507)
Acquisition of assets, net of related payables and cash received	(26,116)	(1,227)
Payment on (issuance of) notes receivable, net	1,013	(590)
Investment in unconsolidated ventures	(659)	(1,246)
Distributions received from unconsolidated ventures	77	969
Proceeds from sale of assets	1,487	
Proceeds from sale leaseback transaction		9,166
Proceeds from sale of unconsolidated venture	675	8,831
Other	(638)	
Net cash used in investing activities	(95,265)	(124,017)

Cash Flows from Financing Activities		
Proceeds from debt	382,076	67,986
Repayment of debt and capital lease obligations	(444,940)	(21,194)
Proceeds from line of credit	60,000	60,446
Repayment of line of credit	(60,000)	(219,899)
Payment of financing costs, net of related payables	(8,436)	(7,258)
Proceeds from public equity offering, net	—	163,827
Other	(590)	(713)
Refundable entrance fees:		
Proceeds from refundable entrance fees	27,303	17,032
Refunds of entrance fees	(16,106)	(16,842)
Cash portion of loss on extinguishment of debt	(179)	—
Recouponing and payment of swap termination, net	(20,427)	—
Net cash (used in) provided by financing activities	(81,299)	43,385
Net increase in cash and cash equivalents	2,591	105,340
Cash and cash equivalents at beginning of period	66,370	53,973
Cash and cash equivalents at end of period	$68,961	$159,313

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business

Brookdale Senior Living Inc. (“Brookdale” or the “Company”) is a leading owner and operator of senior living communities throughout the United States. The Company provides an exceptional living experience through properties that are designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Company owns, leases and operates retirement centers, assisted living and dementia-care communities and continuing care retirement centers (“CCRCs”).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of September 30, 2010, 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, 2009, as filed with the Securities and Exchange Commission.

Revenue Recognition

Resident Fees

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

Entrance Fees

Certain of the Company’s communities have residency agreements which require the resident to pay an upfront fee prior to occupying the community. In addition, in connection with the Company’s MyChoice program, new and existing residents are allowed to pay additional entrance fee amounts in return for a reduced monthly service fee. The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident’s entrance fee is generally refundable within a certain number of months or days following contract termination or in certain agreements, upon the resale of the resident's unit or a comparable unit or 12 months after the resident vacates the unit. In such instances the refundable portion of the fee is not amortized and included in refundable entrance fees and deferred revenue.

Certain contracts require the refundable portion of the entrance fee plus a percentage of the appreciation of the unit, if any, to be refunded only upon resale of a comparable unit ("contingently refundable"). Upon resale the Company may receive reoccupancy proceeds in the form of additional contingently refundable fees, refundable fees, or non-refundable fees. The Company estimates the amount of reoccupancy proceeds to be received from additional

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contingently refundable fees or non-refundable fees and records such amount as deferred revenue. This deferred revenue is amortized over the life of the community and was approximately $60.5 million and $61.8 million at September 30, 2010 and December 31, 2009, respectively. All remaining contingently refundable fees not recorded as deferred revenue and amortized are included in refundable entrance fees and deferred revenue.

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

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

Community Fees

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

Management Fees

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

Fair Value of Financial Instruments

Cash and cash equivalents, cash and escrow deposits-restricted and derivative financial instruments are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow 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 $2.6 billion as of September 30, 2010 and December 31, 2009. As of September 30, 2010 and December 31, 2009, the estimated fair value of debt was approximately $2.5 billion and $2.6 billion, respectively.

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

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

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

2 of the valuation hierarchy.

The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of derivatives and amortization in the current period statement of operations (Note 14).

Self-Insurance Liability Accruals

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

Treasury Stock

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

New Accounting Pronouncements

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

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

In July 2010, the FASB issued a final accounting standards update that requires entities to provide extensive new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses. Adoption of this accounting standards update is required for public entities for interim or annual reporting periods ending on or after December 15, 2010. The Company is currently evaluating this accounting standards update, but does not anticipate a material change to the condensed consolidated financial statements other than additional disclosure.

Dividends

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

Reclassifications

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

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3. Earnings Per Share

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

During the three and nine months ended September 30, 2010 and September 30, 2009, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock and restricted stock unit awards were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit grants excluded from the calculations of diluted net loss per share were 1.1 million and 2.0 million for the three months ended September 30, 2010 and 2009, respectively, and 1.5 million and 1.2 million for the nine months ended September 30, 2010 and 2009, respectively.

4. Acquisitions

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

During the nine months ended September 30, 2010, the Company purchased five home health agencies as part of its growth strategy for an aggregate purchase price of approximately $6.3 million. The entire purchase price of the acquisitions has been ascribed to an indefinite useful life intangible asset and recorded on the condensed consolidated balance sheet under other intangible assets, net.

5. Stock-Based Compensation

The Company recorded $5.8 million and $7.9 million of compensation expense in connection with grants of restricted stock and restricted stock units for the three months ended September 30, 2010 and 2009, respectively, and $15.8 million and $21.5 million of such expense was recorded for the nine months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, compensation expense was calculated net of forfeitures estimated from 0% to 5% and 0% to 6%, respectively, of the shares granted.

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

During 2009, the Company issued restricted stock units to its Chief Executive Officer. Under the terms of the award agreement, upon vesting, each restricted stock unit represents the right to receive one share of the Company's common stock.

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

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	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2010	64	$17.95 – $18.19	$ 1,151
Three months ended June 30, 2010	1,146	$16.85 – $21.36	$ 19,312
Three months ended September 30, 2010	51	$14.18 – $14.75	$ 720

The Company has an employee stock purchase plan for all eligible employees. The plan became effective on October 1, 2008. Under the plan, eligible employees of the Company can purchase shares of the Company's common stock on a quarterly basis at a discounted price through accumulated payroll deductions. Each eligible employee may elect to deduct up to 15% of his or her base pay each quarter. Subject to certain limitations specified in the plan, on the last trading date of each calendar quarter, the amount deducted from each participant's pay over the course of the quarter will be used to purchase whole shares of the Company's common stock at a purchase price equal to 90% of the closing market price on the New York Stock Exchange on such date. Initially, the Company reserved 1,000,000 shares of common stock for issuance under the plan. The employee stock purchase plan also contains an "evergreen" provision that automatically increases the number of shares reserved for issuance under the plan by 200,000 shares on the first day of each calendar year beginning January 1, 2010. The impact on the Company's current year condensed consolidated financial statements is not material.

6. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the nine months ended September 30, 2010 presented on an operating segment basis (dollars in thousands):

	Retirement Centers	Assisted Living	Total
Balance at December 31, 2009	$ 7,155	$ 102,680	$ 109,835
Adjustments	—	(105)	(105)
Balance at September 30, 2010	$ 7,155	$ 102,575	$ 109,730

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. No indicators of impairment were present during the nine months ended September 30, 2010.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of other intangible assets at September 30, 2010 and December 31, 2009 (dollars in thousands):

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	$147,782	$ (12,943)	$134,839	$147,682	$ (10,169)	$137,513
Management contracts and other	158,041	(132,677)	25,364	158,041	(109,323)	48,718
Home health licenses	18,122	—	18,122	11,812	—	11,812
Total	$323,945	$ (145,620)	$178,325	$317,535	$ (119,492)	$198,043

Amortization expense related to definite-lived intangible assets for both the three months ended September 30, 2010 and 2009 was $8.7 million. $26.1 million and $26.5 million of such expense was recorded for the nine months ended September 30, 2010 and 2009, respectively. Home health licenses were determined to be indefinite-lived intangible assets and are not subject to amortization.

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

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

	September 30, 2010	December 31, 2009
Land	$ 273,755	$ 272,737
Buildings and improvements	3,019,349	2,968,659
Furniture and equipment	368,544	334,553
Resident and operating lease intangibles	597,450	599,618
Construction in progress	16,961	17,702
Assets under capital and financing leases	606,639	606,224
	4,882,698	4,799,493
Accumulated depreciation and amortization	(1,128,991)	(941,719)
Property, plant and equipment and leasehold intangibles, net	$ 3,753,707	$ 3,857,774

8. Debt

Long-term Debt, Capital Leases and Financing Obligations

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

	September 30, 2010	December 31, 2009
Mortgage notes payable due 2011 through 2020; weighted average interest rate of 5.31% for the nine months ended September 30, 2010 (weighted average interest rate of 4.64% in 2009)	$1,369,050	$1,416,732
$150,000 Series A notes payable, secured by five communities and by a $3.0 million letter of credit, bearing interest at LIBOR plus 0.88%, payable in monthly installments of interest only until August 2011 and payable in monthly installments of principal and interest through maturity in August 2013	150,000	150,000
Mortgages payable due 2012; weighted average interest rate of 5.64% for the nine months ended September 30, 2010 (weighted average interest rate of 5.64% in 2009), payable interest only through July 2010 and payable in monthly installments of principal and interest through maturity in July 2012, secured by the underlying assets of the portfolio	211,850	212,407
Discount mortgage note payable due 2013, weighted average interest rate of 2.54% for the nine months ended September 30, 2010, net of debt discount of $5.3 million as of September 30, 2010	79,115	78,631
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae; weighted average interest rate of 1.79% for the nine months ended September 30, 2010 (weighted average interest rate of 1.91% in 2009), due 2032, payable interest only until maturity, secured by	100,841	100,841

the underlying assets of the portfolio

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Capital and financing lease obligations payable through 2023; weighted average interest rate of 8.76% for the nine months ended September 30, 2010 (weighted average interest rate of 8.82% in 2009)	336,509	351,735
Mortgage note, bearing interest at a variable rate of LIBOR plus 0.70%, payable interest only through maturity in August 2012. The note is secured by 15 of the Company's communities and an $11.5 million guaranty by the Company	315,180	315,180
Total debt	2,562,545	2,625,526
Less current portion	(160,704)	(166,185)
Total long-term debt	$2,401,841	$2,459,341

Credit Facilities

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

2010 Credit Facility

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

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

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

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

As of September 30, 2010, the Company had an available secured line of credit with a $120.0 million commitment and secured and unsecured letter of credit facilities of up to $82.5 million in the aggregate. As of September 30, 2010, there were no borrowings under the revolving loan facility and $72.7 million of letters of credit had been issued under the secured and unsecured letter of credit facilities.

Financings

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

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

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

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

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

As of September 30, 2010, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

Interest Rate Swaps and Caps

In the normal course of business, a variety of financial instruments are used to manage or hedge interest rate risk. Interest rate protection and swap agreements were entered into to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. Pursuant to the hedge agreements, the Company is required to secure its obligation to the counterparty if the fair value liability exceeds a specified threshold. Cash collateral pledged to the Company's counterparties was $0.6 million and $16.2 million as of September 30, 2010 and December 31, 2009, respectively.

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

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

The following table summarizes the Company's swap instruments at September 30, 2010 (dollars in thousands):

Current notional balance	$	150,000	
Highest possible notional	$	150,000	
Lowest interest rate		0.87	%
Highest interest rate		0.87	%
Average fixed rate		0.87	%
Earliest maturity date		2013	
Latest maturity date		2013	

Weighted average original maturity		2.92 years
Estimated liability fair value (included in other liabilities at September 30, 2010)	$	(715)
Estimated asset fair value (included in other assets, net at September 30, 2010)	$	—

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The following table summarizes the Company’s cap instruments at September 30, 2010 (dollars in thousands):

Current notional balance	$	925,865	
Highest possible notional	$	925,865	
Lowest interest rate		4.96	%
Highest interest rate		6.50	%
Average fixed rate		5.82	%
Earliest maturity date		2011	
Latest maturity date		2012	
Weighted average original maturity		3.2 years	
Estimated liability fair value (included in other liabilities at September 30, 2010)	$	—	
Estimated asset fair value (included in other assets, net at September 30, 2010)	$	32	

The fair value of the Company’s interest rate swaps and caps decreased $0.2 million and $2.5 million for the three months ended September 30, 2010 and 2009, respectively, and decreased $5.0 million and increased $1.1 million for the nine months ended September 30, 2010 and 2009, respectively. This is included as a component of interest expense in the condensed consolidated statements of operations.

During the nine months ended September 30, 2010, the Company terminated 12 swap agreements with a total notional amount of $351.8 million and entered into one new swap agreement with a notional amount of $150.0 million. In conjunction with these transactions, $20.4 million was paid to the respective counterparties, of which $14.9 million was previously deposited as collateral.

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 insurance policies in amounts and with coverage and deductibles the Company believes are adequate, based on the nature and risks of its business, historical experience and industry standards. Effective January 1, 2010, the Company’s current policies provide for deductibles of $150,000 for each claim. Accordingly, the Company is, in effect, self-insured for claims that are less than $150,000.

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10. Supplemental Disclosure of Cash Flow Information

(dollars in thousands):

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 99,898	$ 99,460
Income taxes paid	$ 1,122	$ 1,846
Write-off of deferred costs	$ 2,878	$ 2,918
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Capital leases:		
Property, plant and equipment and leasehold intangibles, net	$ —	$ 18,236
Long-term debt	—	(18,236)
Net	$ —	$ —
Lease Incentives:		
Property, plant and equipment and leasehold intangibles, net	$ —	$ 1,237
Deferred liabilities	—	(1,237)
Net	$ —	$ —
Acquisition of assets, net of related payables and cash received:		
Property, plant and equipment and leasehold intangibles, net	$ 19,900	$ —
Other intangible assets, net	6,310	1,227
Accrued expenses	(94)	—
Net	$ 26,116	$ 1,227
Reclassification of other intangibles, net	$ —	$ 141

11. Facility Operating Leases

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash basis payment	$ 66,364	$ 65,331	$ 198,663	$ 195,397
Straight-line expense	2,812	3,793	8,109	12,073
Amortization of deferred gain	(1,086)	(1,088)	(3,258)	(3,259)
Facility lease expense	$ 68,090	$ 68,036	$ 203,514	$ 204,211

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12. Other Comprehensive Loss, Net

The following table presents the after-tax components of the Company's other comprehensive loss for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss	$(16,913)	$(21,290)	$(40,765)	$(45,456)
Reclassification of net loss on derivatives out of earnings	124	123	391	369
Amortization of payments from settlement of forward interest rate swaps	94	94	282	282
Other	(85)	(84)	(263)	(253)
Total comprehensive loss	$(16,780)	$(21,157)	$(40,355)	$(45,058)

13. Income Taxes

The Company's effective tax rates for the three months ended September 30, 2010 and 2009 were 41.1% and 25.6%, respectively, and for the nine months ended September 30, 2010 and 2009 were 37.6% and 29.4%, respectively. The difference in the effective rate between these periods was primarily due to the impact of the nondeductible stock-based compensation recorded under ASC 718-10 in 2009.

The Company recorded additional interest charges related to its tax contingency reserve for the nine months ended September 30, 2010. Tax returns for years 2007, 2008 and 2009 are subject to future examination by tax authorities. In addition, certain tax returns are open from 2000 through 2006 to the extent of the net operating losses generated during those periods.

14. Fair Value Measurements

The following table provides the Company's derivative assets and liabilities carried at fair value as measured on a recurring basis as of September 30, 2010 (dollars in thousands):

	Total Carrying Value at September 30, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative assets	$ 32	$ —	$ 32	$ —
Derivative liabilities	(715)	—	(715)	—
	$ (683)	$ —	$ (683)	$ —

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

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

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15. Segment Information

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

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

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

CCRCs. CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have retirement centers, assisted living and skilled nursing available on one campus, and some also include memory care and Alzheimer's units.

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

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

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

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	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenue(1)				
Retirement Centers	$ 133,663	$ 124,277	$ 397,455	$ 371,435
Assisted Living	259,572	229,230	765,816	687,124
CCRCs	163,890	150,349	484,443	440,985
Management Services	1,339	1,987	4,146	5,002
	$ 558,464	$ 505,843	$ 1,651,860	$ 1,504,546
Segment operating income(2)				
Retirement Centers	$ 54,199	$ 54,516	$ 162,347	$ 160,568
Assisted Living	89,141	77,839	269,740	245,093
CCRCs	44,849	42,562	138,316	130,246
Management Services	937	1,391	2,902	3,501
	$ 189,126	$ 176,308	$ 573,305	$ 539,408
General and administrative (including non-cash stock-based compensation expense)(3)	$ 32,829	$ 34,124	$ 95,773	$ 98,647
Facility lease expense	68,090	68,036	203,514	204,211
Depreciation and amortization	74,951	66,983	221,180	202,378
Lease termination expense	4,616	—	4,616	—
Income from operations	$ 8,640	$ 7,165	$ 48,222	$ 34,172

	As of September 30, 2010	December 31, 2009
Total assets		
Retirement Centers	$ 1,110,756	$ 1,109,794
Assisted Living	1,468,405	1,519,693
CCRCs	1,662,749	1,685,832
Corporate and Management Services	296,153	330,192
Total assets	$ 4,538,063	$ 4,645,511

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

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

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

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

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

Certain statements in this Quarterly Report on Form 10-Q and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our operational initiatives and our expectations regarding their effect on our results; our expectations regarding occupancy, revenue, cash flow, expense levels, the demand for senior housing, expansion and development activity, acquisition opportunities, asset dispositions and the valuation of our common stock; our belief regarding our growth prospects; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity; our plans to deleverage; our expectations regarding financings and refinancings of assets (including the timing thereof); our expectations regarding the effect of recently published or proposed changes in government reimbursement programs 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 and home health); our plans to expand existing communities; the expected project costs for our expansion program; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein). Words such as "anticipate(s)", "expect(s)", "intend(s)", "plan(s)", "target(s)", "project(s)", "predict(s)", "believe(s)", "may", "will", "would", "could", "should", "seek(s)", "estimate(s)" and similar express intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could have a material adverse effect on our operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, the risk associated with the current global economic crisis and its impact upon capital markets and liquidity; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; the risk that we may be required to post additional cash collateral in connection with our interest rate swaps; the risk that continued market deterioration could jeopardize the performance of certain of our counterparties' obligations; changes in governmental reimbursement programs; our limited operating history on a combined basis; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our facilities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; and other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other communications, including those set forth under "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2009 and in this Quarterly Report. Such forward-looking statements speak only as of the date of this Quarterly Report. We expressly disclaim any obligation to release publicly any updates or revisions

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to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Executive Overview

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

Our operating results for the three and nine months ended September 30, 2010 were favorably impacted by an increase in our total revenues, primarily driven by an increase in average monthly revenue per unit, including an increase in our ancillary services revenue, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. Although we have made significant progress in many areas of our business, the difficult operating environment has continued to result in occupancy rates that are lower than historical levels and diminished growth in the rates we charge our residents.

During the nine months ended September 30, 2010, we also continued our efforts to strengthen our financial position. For example (and as discussed in more detail under “Credit Facilities - 2010 Credit Facility” below), during the first quarter of 2010, we entered into a new revolving credit facility. The new facility had an initial commitment of $100.0 million, with an option to increase the commitment to $120.0 million (which we exercised during the second quarter), and matures on June 30, 2013. The new facility replaced the $75.0 million revolving credit agreement with Bank of America, N.A. that was scheduled to expire in August 2010. As a result of our recent operating performance and the steps we have recently taken to improve our liquidity position, we ended the third quarter with $69.0 million of unrestricted cash and cash equivalents on our condensed consolidated balance sheet.

The tables below present a summary of our operating results and certain other financial metrics for the three and nine months ended September 30, 2010 and 2009 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Three Months Ended September 30,		Increase (Decrease)	
	2010	2009	Amount	Percent
Total revenues	$558.5	$505.8	$52.6	10.4 %
Net loss	$(16.9)	$(21.3)	$(4.4)	(20.7 %)
Adjusted EBITDA	$103.3	$85.6	$17.6	20.6 %
Cash From Facility Operations	$59.7	$48.2	$11.5	23.9 %
Facility Operating Income	$181.6	$169.2	$12.4	7.3 %

	Nine Months Ended September 30,		Increase (Decrease)	
	2010	2009	Amount	Percent
Total revenues	$1,651.9	$1,504.5	$147.4	9.8 %
Net loss	$(40.8)	$(45.5)	$(4.7)	(10.3 %)
Adjusted EBITDA	$299.9	$263.6	$36.3	13.8 %

Cash From Facility Operations	$171.1	$150.9	$20.2	13.4	%
Facility Operating Income	$551.2	$519.8	$31.4	6.0	%

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

Our revenues for the nine months ended September 30, 2010 increased to $1.7 billion, an increase of $147.3 million, or 9.8%, over our revenues for the nine months ended September 30, 2009. The increase in revenues in the current year period was primarily a result of an increase in the average monthly revenue per unit compared to the prior year period, including growing revenues from our ancillary services programs, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. Our weighted average occupancy rate for the nine months ended September 30, 2010 and 2009 was 86.9% and 86.5%, respectively. As described below, beginning with the first quarter of 2010, occupancy rates and average monthly revenue per unit are being reported using the average unit methodology. Occupancy rates and average monthly revenue per unit for all prior periods have been recast to conform to the current presentation.

During the three months ended September 30, 2010, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 20.6%, 23.9% and 7.3%, respectively, when compared to the three months ended September 30, 2009. During the nine months ended September 30, 2010, our Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income increased by 13.8%, 13.4% and 6.0%, respectively, when compared to the nine months ended September 30, 2009.

During the three months ended September 30, 2010, we continued to expand our ancillary services offerings. As of September 30, 2010, we offered therapy services to approximately 38,100 of our units and home health services to over 24,500 of our units. We continue to see positive results from the maturation of previously-opened therapy and home health clinics. We also expect to continue to expand our ancillary services programs to additional units and to open or acquire additional home health agencies.

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

Consolidated Results of Operations

Three Months Ended September 30, 2010 and 2009

The following table sets forth, for the periods indicated, statements of operations items and the amount and percentage of increase or decrease of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included herein.

Beginning with the first quarter of 2010, occupancy rates and average monthly revenue per unit are reported using an average unit methodology based on a consistent treatment of units across all product lines, as compared to the historical method where occupancy was reported based upon unit calculations that varied by product line. Occupancy rates and average monthly revenue per unit for all prior periods have been recast to conform to the current presentation.

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

	Three Months Ended September 30, 2010	2009	Increase (Decrease)	% Increase (Decrease)
Statement of Operations Data:				
Revenue				
Resident fees				
Retirement Centers	$ 133,663	$ 124,277	$ 9,386	7.6 %
Assisted Living	259,572	229,230	30,342	13.2 %
CCRCs	163,890	150,349	13,541	9.0 %
Total resident fees	557,125	503,856	53,269	10.6 %
Management fees	1,339	1,987	(648)	(32.6 %)
Total revenue	558,464	505,843	52,621	10.4 %
Expense				
Facility operating expense				
Retirement Centers	79,464	69,761	9,703	13.9 %
Assisted Living	170,431	151,391	19,040	12.6 %
CCRCs	119,041	107,787	11,254	10.4 %
Total facility operating expense	368,936	328,939	39,997	12.2 %
General and administrative expense	33,231	34,720	(1,489)	(4.3 %)
Facility lease expense	68,090	68,036	54	0.1 %
Depreciation and amortization	74,951	66,983	7,968	11.9 %
Facility lease termination expense	4,616	—	4,616	100.0 %
Total operating expense	549,824	498,678	51,146	10.3 %
Income from operations	8,640	7,165	1,475	20.6 %
Interest income	441	623	(182)	(29.2 %)
Interest expense				
Debt	(33,357)	(30,574)	2,783	9.1 %
Amortization of deferred financing costs and debt discount	(2,244)	(2,167)	77	3.6 %
Change in fair value of derivatives and amortization	(176)	(2,478)	(2,302)	(92.9 %)
Equity in earnings of unconsolidated ventures	272	42	230	547.6 %
Loss on extinguishment of debt, net	(856)	(1,178)	322	27.3 %
Other non-operating expense	(1,454)	(52)	(1,402)	NM
Loss before income taxes	(28,734)	(28,619)	115	0.4 %
Benefit for income taxes	11,821	7,329	4,492	61.3 %
Net loss	$ (16,913)	$ (21,290)	$ (4,377)	(20.6 %)
Selected Operating and Other Data:				
Total number of communities (at end of period)	564	547	17	3.1 %
Total units operated(1)	50,903	49,423	1,480	3.0 %
Owned/leased communities units	47,117	44,992	2,125	4.7 %

Owned/leased communities occupancy rate (weighted average)		87.4 %		86.7 %		0.7 %		0.8 %
Average monthly revenue per unit (2)	$	4,457	$	4,259	$	198		4.6 %

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Selected Segment Operating and Other Data:								
Retirement Centers								
Number of communities (period end)	80		77		3		3.9	%
Total units (1)	14,734		14,114		620		4.4	%
Occupancy rate (weighted average)	87.4	%	87.3	%	0.1	%	0.1	%
Average monthly revenue per unit (2)	$3,461		$3,361		$100		3.0	%
Assisted Living								
Number of communities (period end)	429		413		16		3.9	%
Total units (1)	21,114		20,062		1,052		5.2	%
Occupancy rate (weighted average)	89.0	%	87.0	%	2.0	%	2.3	%
Average monthly revenue per unit (2)	$4,606		$4,376		$230		5.3	%
CCRCs								
Number of communities (period end)	36		35		1		2.9	%
Total units (1)	11,269		10,816		453		4.2	%
Occupancy rate (weighted average)	84.4	%	85.1	%	(0.7	%)	(0.8	%)
Average monthly revenue per unit (2)	$5,509		$5,239		$270		5.2	%
Management Services								
Number of communities (period end)	19		22		(3	)	(13.6	%)
Total units (1)	3,786		4,431		(645	)	(14.6	%)
Occupancy rate (weighted average)	83.7	%	82.8	%	0.9	%	1.1	%
Selected Entrance Fee Data:								
Non-refundable entrance fees sales	$9,812		$12,635					
Refundable entrance fees sales(3)	12,242		9,296					
Total entrance fee receipts(4)	22,054		21,931					
Refunds	(4,984	)	(4,649	)				
Net entrance fees	$17,070		$17,282					

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(1) Total units operated represent the average units operated during the period, excluding equity homes.

(2) Average monthly revenue per unit represents the average of the total monthly revenues, excluding amortization of entrance fees, divided by average occupied units.

(3) Refundable entrance fee sales for the three months ended September 30, 2010 and 2009 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled $6.5 million and $0.1 million for the three months ended September 30, 2010 and 2009, respectively.

(4) Includes $2.9 million and $10.6 million of first generation entrance fee receipts (which represent initial entrance fees received from the sale of units at a newly opened entrance fee CCRC) during the three months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, our total operations included 564 communities with a capacity of 51,837 units.

Resident Fees

The increase in resident fees occurred across all segments. Resident fees increased over the prior-year third quarter mainly due to an increase in average monthly revenue per unit during the current period, including an increase in our ancillary services revenue as we continue to roll out therapy and home health services to many of our communities, the inclusion of revenue from recent acquisitions and expansions, and an increase in occupancy. During the current period, revenues grew 3.7% at the 514 communities we operated during both periods with a 3.1% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy increased 0.5% in these communities period over period.

Retirement Centers revenue increased $9.4 million, or 7.6%, primarily due to the inclusion of acquisitions that occurred after the prior period and an increase in average monthly revenue per unit, as well as from an increase in our ancillary services revenue at communities we operated during both periods.

Assisted Living revenue increased $30.3 million, or 13.2%, primarily due to the inclusion of acquisitions that occurred after the prior period and increases in the average monthly revenue per unit, including an increase in our ancillary services revenue, and occupancy at the communities we operated during both periods.

CCRCs revenue increased $13.5 million, or 9.0%, primarily due to the inclusion of expansions that opened after the prior period and an increase in the average monthly revenue per unit, including an increase in our ancillary services revenue, at the communities we operated during both periods. These increases were partially offset by a decrease in occupancy at these same communities period over period.

Management Fees

Management fees decreased period over period as three management agreements were terminated late in the prior year. The terminated management agreements were attributed to us acquiring the remaining interest in the communities that we previously managed.

Facility Operating Expense

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

Retirement Centers operating expenses increased $9.7 million, or 13.9%, primarily due to the inclusion of expenses from acquisitions that occurred after the prior period and an increase in expenses incurred in connection with the continued expansion of our ancillary services programs. Facility operating expenses were also negatively impacted by increased salaries and wages due to wage rate increases and an increase in hours worked period over period. These increases were partially offset by a decrease in overtime wages and bonus payments.

Assisted Living operating expenses increased $19.0 million, or 12.6%, primarily due to the inclusion of expenses from acquisitions that occurred after the prior period, an increase in expenses incurred in connection with the continued expansion of our ancillary services programs, as well as increased salaries and wages due to wage rate increases and an increase in hours worked period over period.

CCRCs operating expenses increased $11.3 million, or 10.4%, primarily due to the inclusion of expenses from expansions that opened after the prior period, increases in lighting retrofit costs related to an initiative to use more energy efficient light bulbs in our communities, and an increase in health care supply expenses. These were partially offset by decreases in overtime wages and bonus payments, as well as reduced workers compensation expenses.

General and Administrative Expense

General and administrative expense decreased $1.5 million, or 4.3%, primarily as a result of decreases in transaction-related costs and non-cash stock-based compensation expense in the current period, partially offset by increases in employee benefits and travel expenses. General and administrative expense as a percentage of total revenue, including revenue generated by the communities we manage and excluding non-cash compensation, integration and transaction-related costs, was 4.6% and 4.5% for the three months ended September 30, 2010 and 2009, respectively, calculated as follows (dollars in thousands):

	Three Months Ended September 30,					
	2010			2009		
Resident fee revenues	$557,125	94.1	%	$503,856	92.8	%
Resident fee revenues under management	34,662	5.9	%	39,021	7.2	%
Total	$591,787	100.0	%	$542,877	100.0	%
General and administrative expenses (excluding non-cash compensation, integration and transaction-related costs)	$27,408	4.6	%	$24,651	4.5	%
Non-cash compensation expense	5,823	1.0	%	7,869	1.5	%
Integration and transaction-related costs	—	—		2,200	0.4	%
General and administrative expenses (including non-cash compensation, integration and transaction-related costs)	$33,231	5.6	%	$34,720	6.4	%

Facility Lease Expense

Lease expense remained relatively constant period over period.

Depreciation and Amortization

Depreciation and amortization expense increased $8.0 million, or 11.9%, primarily due to the inclusion of acquisitions and expansions that occurred or opened subsequent to the prior period.

Facility Lease Termination Expense

The $4.6 million of facility lease termination expense relates to the accrual of costs recorded in connection with the termination of an operating lease agreement with respect to one community.

Interest Income

Interest income remained relatively constant period over period.

Interest Expense

The change in interest expense was primarily driven by additional interest expense recorded on our mortgage debt due to the inclusion of acquisitions and expansions that occurred or opened subsequent to the prior period, partially offset by a decrease in interest expense recorded from the change in the fair value of interest rate swaps and caps due to favorable changes in the LIBOR yield curve period over period.

Income Taxes

Our effective tax rates for the three months ended September 30, 2010 and 2009 were 41.1% and 25.6%, respectively. The difference in the effective rate between these periods was primarily due to the impact of the nondeductible stock-based compensation recorded under ASC 718-10 in 2009.

An additional interest charge related to our tax contingency reserve was recorded during the three months ended September 30, 2010. Tax returns for years 2007, 2008 and 2009 are subject to future examination by tax authorities. In addition, certain tax returns are open from 2000 through 2006 to the extent of the net operating losses generated during those periods.

Nine Months Ended September 30, 2010 and 2009

The following table sets forth, for the periods indicated, statements of operations items and the amount and percentage of increase or decrease of these items. The results of operations for any particular period are not

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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 herein.

Beginning with the first quarter of 2010, occupancy rates and average monthly revenue per unit are reported using an average unit methodology based on a consistent treatment of units across all product lines, as compared to the historical method where occupancy was reported based upon unit calculations that varied by product line. Occupancy rates and average monthly revenue per unit for all prior periods have been recast to conform to the current presentation.

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

	Nine Months Ended September 30, 2010	2009	Increase (Decrease)	% Increase (Decrease)
Statement of Operations Data:				
Revenue				
Resident fees				
Retirement Centers	$ 397,455	$ 371,435	$ 26,020	7.0 %
Assisted Living	765,816	687,124	78,692	11.5 %
CCRCs	484,443	440,985	43,458	9.9 %
Total resident fees	1,647,714	1,499,544	148,170	9.9 %
Management fees	4,146	5,002	(856)	(17.1 %)
Total revenue	1,651,860	1,504,546	147,314	9.8 %
Expense				
Facility operating expense				
Retirement Centers	235,108	210,867	24,241	11.5 %
Assisted Living	496,076	442,031	54,045	12.2 %
CCRCs	346,127	310,739	35,388	11.4 %
Total facility operating expense	1,077,311	963,637	113,674	11.8 %
General and administrative expense	97,017	100,148	(3,131)	(3.1 %)
Facility lease expense	203,514	204,211	(697)	(0.3 %)
Depreciation and amortization	221,180	202,378	18,802	9.3 %
Facility lease termination expense	4,616	—	4,616	100.0 %
Total operating expense	1,603,638	1,470,374	133,264	9.1 %
Income from operations	48,222	34,172	14,050	41.1 %
Interest income	1,521	1,771	(250)	(14.1 %)
Interest expense				
Debt	(100,540)	(96,845)	3,695	3.8 %
Amortization of deferred financing costs and debt discount	(7,250)	(7,099)	151	2.1 %
Change in fair value of derivatives and amortization	(5,023)	1,137	6,160	541.8 %
Equity in earnings of unconsolidated ventures	788	1,218	(430)	(35.3 %)
Loss on extinguishment of debt, net	(1,557)	(2,918)	(1,361)	(46.6 %)
Other non-operating (expense) income	(1,454)	4,172	(5,626)	(134.9 %)
Loss before income taxes	(65,293)	(64,392)	901	1.4 %

Benefit for income taxes		24,528			18,936			5,592			29.5	%
Net loss	$	(40,765	)	$	(45,456	)	$	(4,691	)		(10.3	%)
Selected Operating and Other Data:												
Total number of communities (at end of period)		564			547			17			3.1	%

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Total units operated(1)	50,927		49,268		1,659		3.4	%
Owned/leased communities units	47,140		44,897		2,243		5.0	%
Owned/leased communities occupancy rate (weighted average)	86.9	%	86.5	%	0.4	%	0.5	%
Average monthly revenue per unit (2)	$4,419		$4,244		$175		4.1	%
Selected Segment Operating and Other Data:								
Retirement Centers								
Number of communities (period end)	80		77		3		3.9	%
Total units (1)	14,736		14,116		620		4.4	%
Occupancy rate (weighted average)	87.2	%	87.2	%	—		—	
Average monthly revenue per unit (2)	$3,438		$3,353		$85		2.5	%
Assisted Living								
Number of communities (period end)	429		413		16		3.9	%
Total units (1)	21,127		20,073		1,054		5.3	%
Occupancy rate (weighted average)	88.2	%	86.4	%	1.8	%	2.1	%
Average monthly revenue per unit (2)	$4,568		$4,401		$167		3.8	%
CCRCs								
Number of communities (period end)	36		35		1		2.9	%
Total units (1)	11,277		10,708		569		5.3	%
Occupancy rate (weighted average)	84.2	%	85.8	%	(1.6	%)	(1.9	%)
Average monthly revenue per unit (2)	$5,456		$5,141		$315		6.1	%
Management Services								
Number of communities (period end)	19		22		(3	)	(13.6	%)
Total units (1)	3,787		4,371		(584	)	(13.4	%)
Occupancy rate (weighted average)	83.5	%	84.3	%	(0.8	%)	(0.9	%)
Selected Entrance Fee Data:								
Non-refundable entrance fees sales	$27,716							