

Brookdale Senior Living Inc.  
Form 10-K/A  
June 13, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K/A  
(Amendment No. 1)**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2005**  
or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number 001-32641  
BROOKDALE SENIOR LIVING INC.  
(Exact name of registrant as specified in its charter)**

**Delaware** **20-3068069**  
*(State or Other Jurisdiction of* *(I.R.S. Employer*  
*Incorporation or Organization)* *Identification No.)*

**330 North Wabash, Suite 1400, Chicago, Illinois 60611**

*(Address of Principal Executive Offices)*

**Telephone: (312) 977-3700**

*(Registrant's telephone number, including area code)*

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 Par Value Per Share	New York Stock Exchange

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

**None**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the Registrant on June 30, 2005 is not applicable as the registrant was not publicly traded as of June 30, 2005. The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price of \$38.65 per share at which

the common equity was last sold as of March 27, 2006 was \$2.5 billion.

As of March 27, 2006, the number of shares of the Registrant's common stock outstanding was 65,006,833.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections of Registrant's Definitive Proxy Statement relating to its 2006 Annual Stockholders' Meeting are incorporated by reference into Part III of this Annual Report on Form 10-K.

**EXPLANATORY NOTE**

This Form 10-K/A is being filed for the sole purpose of presenting aggregated results for the year ended December 31, 2005 in a separate column by combining the consolidated operating results for the period October 1, 2005 to December 31, 2005 (period subsequent to formation transaction) with the combined operating results for the period January 1, 2005 to September 30, 2005, in our Form 10-K filed on March 31, 2006; Part II. Financial Statements and Supplemental Data, Item 8 and Selected Financial Data, Item 6, have been updated to reflect this combined presentation. In addition, this Form 10-K/A does not reflect events occurring after the original filing of our Form 10-K, or modify or update the disclosures presented in such original filing of our Form 10-K.

---

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected historical consolidated and combined financial data as of and for each of the years in the five-year period ended December 31, 2005. The combined financial statement includes Brookdale Living Communities, Inc. for all periods presented and Alterra Healthcare Corporation effective December 1, 2003, Fortress CCRC Portfolio, effective April 5, 2005, and the acquisition of eight of the nine facilities in the Prudential Portfolio on June 21, 2005 and the ninth facility on July 22, 2005. You should read this information in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and our historical combined financial statements and the related notes thereto included elsewhere in this report. Our historical statement of operations data and balance sheet data as of and for each of the years in the five-year period ended December 31, 2005 have been derived from our audited financial statements.

	For the Period October 1, 2005 to December 31, 2005	For the Period January 1, 2005 to September 30, 2005	Year Ended December 31,				
			2005	2004	2003	2002	2001
<b>Statement of Operations Data (in thousands, except per share data):</b>							
Revenue	\$ 213,047	\$ 577,530	\$ 790,577	\$ 660,872	\$ 222,584	\$ 161,516	\$ 123,935
Facility operating expenses	127,105	366,782	493,887	415,169	133,119	92,980	72,467
Lease expense	48,487	140,852	189,339	99,997	30,744	31,003	26,016
Depreciation and amortization	19,022	30,861	49,883	52,307	22,480	13,708	11,230
Amortization of goodwill							2,382
General and administrative expenses (including non-cash stock compensation of \$11,534, \$11,146 and \$22,680 respectively, for 2005)	27,690	54,006	81,696	43,640	15,997	12,540	12,138
Total operating expenses	222,304	592,501	814,805	611,113	202,340	150,231	124,233
Income (loss) from operations	(9,257)	(14,971)	(24,228)	49,759	20,244	11,285	(298)
Interest income	1,588	2,200	3,788	637	14,037	18,004	18,251
Interest expense:							
Debt	(12,809)	(33,439)	(46,248)	(63,634)	(25,106)	(9,490)	(8,247)
Change in fair value of derivatives	(88)	4,080	3,992	3,176			
Loss on sale of properties					(24,513)		
Loss (gain) on extinguishment of debt	(3,543)	(453)	(3,996)	1,051	12,511		

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Equity in earnings (loss) of unconsolidated ventures, net of minority interest	(197)	(641)	(838)	(931)	318	584	984
Other				(114)			
Income (loss) before taxes	(24,306)	(43,224)	(67,530)	(10,056)	(2,509)	20,383	10,690
(Provision) benefit for income taxes	(150)	247	97	(11,111)	(139)	(8,666)	(4,503)
Income (loss) before minority interest.	(24,456)	(42,977)	(67,433)	(21,167)	(2,648)	11,717	6,187
Minority interest		16,575	16,575	11,734	1,284	(5,262)	(2,778)
Income (loss) before discontinued operations and cumulative effect of a change in accounting principle	(24,456)	(26,402)	(50,858)	(9,433)	(1,364)	6,455	3,409
Loss on discontinued operations		(128)	(128)	(361)	(322)		
Cumulative effect of a change in accounting principle, net of income taxes of \$8,095					(7,277)		
Net income (loss)	\$ (24,456)	\$ (26,530)	\$ (50,986)	\$ (9,794)	\$ (8,963)	\$ 6,455	\$ 3,409
Basic earnings (loss) per share(1)	\$ (0.41)	\$	\$	\$	\$	\$	\$
Weighted average shares used in computing basic earnings (loss) per share	59,710						
Diluted earnings (loss) per share before extraordinary loss	(0.41)						
Weighted average shares used in	59,710						

computing diluted  
earnings (loss) per  
share

**Other Operating  
Data:**

Number of facilities (at end of period)	383	380	383	367	359	60	51
Total units operated	30,055	30,048	30,055	26,208	24,423	11,334	9,266
Occupancy rate	89.8%	88.9%	89.6%	89.4%	87.5%	91.0%	82.2%
Average monthly revenue per unit/bed (same store)	\$ 2,969	\$ 2,910	\$ 2,991	\$ 2,827	\$ 2,660	\$ 2,516	\$ 2,445

**As of December 31,**

	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Balance Sheet Data (in thousands):</b>					
Cash and cash equivalents	\$ 77,682	\$ 86,858	\$ 56,468	\$ 2,172	\$ 1,067
Total assets	1,697,811	746,625	1,656,582	730,298	570,323
Total debt	754,301	371,037	1,044,736	290,483	171,236
Total stockholders /owners equity	630,403	40,091	237,744	183,807	177,352

- (1) We have excluded the earnings (loss) per share data for the nine months ended September 30, 2005 and years ended December 31, 2005, 2004, 2003, 2002 and 2001. We believe these calculations are not meaningful to investors due to the different ownership and legal structures (e.g., corporation and limited liability companies) of the various entities prior to the combination transaction on September 30, 2005.



**BROOKDALE SENIOR LIVING INC.  
INDEX TO FINANCIAL STATEMENTS**

	<b>PAGE</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated and Combined Balance Sheets as of December 31, 2005 and 2004</u>	F-3
<u>Consolidated and Combined Statements of Operations for the periods from October 1, 2005 through December 31, 2005 and from January 1, 2005 through September 30, 2005 and the Years Ended December 31, 2005, 2004 and 2003</u>	F-4
<u>Consolidated and Combined Statements of Equity for the periods from October 1, 2005 through December 31, 2005 and from January 1, 2005 through September 30, 2005 and the Years Ended December 31, 2004 and 2003</u>	F-5
<u>Consolidated and Combined Statements of Cash Flows for the periods from October 1, 2005 through December 31, 2005 and from January 1, 2005 through September 30, 2005 and the Years Ended December 31, 2005, 2004 and 2003</u>	F-6
<u>Notes to the Consolidated and Combined Financial Statements</u>	F-9
<u>Schedule II Valuation and Qualifying Accounts</u>	F-42

F-1

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Brookdale Senior Living, Inc.

We have audited the accompanying consolidated and combined balance sheets of Brookdale Senior Living, Inc. (the Company ) as of December 31, 2005 and 2004, as defined in Note 1, and the related combined statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2005 and the consolidated statements of operations, stockholders' equity, and cash flows for the period from October 1, 2005 to December 31, 2005, and the combined statements of operations, owners' equity, and cash flows for the period from January 1, 2005 to September 30, 2005. Our audits also included the financial statement schedule listed in the index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, the Company changed its method of accounting for variable interest entities in 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated and combined financial position of the Company at December 31, 2005 and 2004, respectively, the combined results of operations and cash flows for each of the three years in the period ended December 31, 2005 and the consolidated results of operations and cash flows for the period from October 1, 2005 to December 31, 2005 and the combined results of operations and cash flows for the period from January 1, 2005 to September 30, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP  
Chicago, Illinois  
March 17, 2006

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

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,682	\$ 86,858
Cash and investments restricted	37,314	20,528
Accounts receivable, net	10,623	8,062
Assets held for sale		2,964
Prepaid expenses and other, net	20,258	16,891
 Total current assets	 145,877	 135,303
 Property, plant and equipment	 1,479,587	 557,293
Accumulated depreciation	(70,855)	(33,674)
 Property, plant and equipment, net	 1,408,732	 523,619
 Cash and investments restricted	 24,099	 27,459
Investment in unconsolidated ventures	14,086	14,805
Goodwill	65,646	8,961
Lease security deposits	25,271	26,233
Other, net	14,100	10,245
 Total assets	 \$ 1,697,811	 \$ 746,625
 <b>Liabilities and Stockholders /Owner s Equity</b>		
Current liabilities:		
Current portion of debt	\$ 132	\$ 3,888
Trade accounts payable	9,253	7,437
Accrued expenses	85,392	77,333
Refundable entrance fees	30,693	
Tenant refundable fees and security deposits	16,333	14,756
Deferred revenue	13,093	14,588
Dividends payable	16,547	
 Total current liabilities	 171,443	 118,002
 Long-term debt, less current portion	 754,169	 367,149
Deferred gains	60,681	138,402
Deferred lease liability	19,234	9,527
Deferred tax liability	41,689	
Other	20,156	42,055
 Total liabilities	 1,067,372	 675,135

Minority interests	36	31,399
Commitments and contingencies		
<b>Stockholders /Owner s Equity:</b>		
Preferred stock, \$.01 par value, 50,000,000 shares authorized at December 31, 2005; no shares issued and outstanding		
Common stock, \$.01 par value, 200,000,000 shares authorized at December 31, 2005; 65,006,833 shares issued and outstanding	650	
Additional paid-in-capital	690,950	
Accumulated deficit	(62,626)	
Accumulated other comprehensive income	1,429	
Owners equity		40,091
Total stockholders /owner s equity	630,403	40,091
Total liabilities and stockholders /owner s equity	\$ 1,697,811	\$ 746,625

See accompanying notes to consolidated and combined financial statements.

F-3

**BROOKDALE SENIOR LIVING INC.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

	For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
			2005	2004	2003
<b>Revenue</b>					
Resident fees	\$ 211,860	\$ 574,855	\$ 786,715	\$ 657,327	\$ 217,216
Management fees	1,187	2,675	3,862	3,545	5,368
Total revenue	213,047	577,530	790,577	660,872	222,584
<b>Expenses</b>					
Facility operating, excluding depreciation and amortization of \$17,657, \$27,586, \$45,243, \$48,885 and \$20,383, respectively)	127,105	366,782	493,887	415,169	133,119
General and administrative (including non-cash stock compensation expense of \$11,534, \$11,146 and \$22,680 for 2005, respectively)	27,690	54,006	81,696	43,640	15,997
Facility lease expense	48,487	140,852	189,339	99,997	30,744
Depreciation and amortization	19,022	30,861	49,883	52,307	22,480
Total operating expenses	222,304	592,501	814,805	611,113	202,340
Income (loss) from operations	(9,257)	(14,971)	(24,228)	49,759	20,244
Interest income	1,588	2,200	3,788	637	14,037
Interest expense:					
Debt	(12,809)	(33,439)	(46,248)	(63,634)	(25,106)
Change in fair value of derivatives.	(88)	4,080	3,992	3,176	
Loss from sale of properties					(24,513)
Gain (loss) on extinguishment of debt	(3,543)	(453)	(3,996)	1,051	12,511
Equity in earnings (loss) of unconsolidated ventures, net of minority interest \$ , \$ , \$ , \$(6) and \$11, respectively	(197)	(641)	(838)	(931)	318
Other				(114)	
Loss before income taxes	(24,306)	(43,224)	(67,530)	(10,056)	(2,509)
(Provision) benefit for income taxes.	(150)	247	97	(11,111)	(139)
Loss before minority interest	(24,456)	(42,977)	(67,433)	(21,167)	(2,648)

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Minority interest		16,575	16,575	11,734	1,284
Loss before discontinued operations and cumulative effect of a change in accounting principle	(24,456)	(26,402)	(50,858)	(9,433)	(1,364)
Loss on discontinued operations, net of taxes and minority interest		(128)	(128)	(361)	(322)
Cumulative effect of a change in accounting principle, net of income taxes of \$4,460 and minority interest					(7,277)
Net loss	\$ (24,456)	\$ (26,530)	\$ (50,986)	\$ (9,794)	\$ (8,963)
Basic and diluted (loss) per share	\$ (0.41)				
Weighted average shares used in computing basic and diluted (loss) per share	59,710				

See accompanying notes to consolidated and combined financial statements.

F-4

---

**BROOKDALE SENIOR LIVING INC.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS AND OWNER S EQUITY**  
**For the Period from October 1, 2005 through December 31, 2005 and**  
**For the Period From January 1, 2005 through September 30, 2005 and**  
**Years Ended December 31, 2004 and 2003**  
**(In thousands)**

	Common Stock	Additional	Accumulated	Accumulated		
	Shares	Amount	Paid-In	Earnings	Other	Total
			Capital	(Deficit)	Comprehensive	
					Income	
					(Loss)	Equity
<b>Balances at</b>						
<b>January 1, 2003</b>		\$	\$	\$	\$	\$ 183,807
Combination of						
Alterra						62,900
Net loss						(8,963)
						(8,963)
<b>Balances at</b>						
<b>December 31, 2003</b>						237,744
Dividends						(190,253)
Net loss						(9,794)
Tax effect of						
pre-fresh start						
accounting net						
operating loss						
carryforward						2,394
						2,394
<b>Balances at</b>						
<b>December 31, 2004</b>						40,091
Dividends						(34,355)
Purchase of non						
controlling interest						
in Alterra						50,000
Combination of						
Fortress CCRC LLC						
and FIT REN LLC						199,423
Compensation						
expense related to						
restricted stock grant						6,399
Allocation of						
minority interest in						
connection with						
stock grant						(2,717)
Net loss						(26,530)
Unrealized loss on						
derivative						(666)
						(666)
						232,311
						231,645

**Subtotal at  
September 30,  
2005.**

Reclassify predecessor equity and minority interest			316,048	(63,045)	(280)	(232,311)	20,412
Minority step-up in basis			236,663	24,875			261,538
Shares issued in connection with the formation of BSL	56,446	564	(564)				

**Balances at  
September 30,  
2005.**

Dividends	56,446	564	552,147	(38,170)	(946)		513,595
Compensation expense related to restricted stock grant			(16,548)				(16,548)
Reversal of tax effect of pre-fresh start accounting net operating loss carryforward			11,534				11,534
Issuance of common stock from initial public offering, net	8,561	86	144,749				144,835
Net loss				(24,456)			(24,456)
Amortization of payments from settlement of forward interest rate swaps					94		94
Unrealized income on derivative					2,281		2,375

**Balances at**

<b>December 31, 2005</b>	65,007	\$ 650	\$ 690,950	\$ (62,626)	\$ 1,429	\$	\$ 630,403
--------------------------	--------	--------	------------	-------------	----------	----	------------

See accompanying notes to consolidated and combined financial statements.



**BROOKDALE SENIOR LIVING INC.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**  
(In thousands)

	For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
			2005	2004	2003
<b>Cash Flows from Operating Activities</b>					
Net loss	\$ (24,456)	\$ (26,530)	\$ (50,986)	\$ (9,794)	\$ (8,963)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Loss on sale of properties					24,513
Loss (gain) on extinguishment of debt	3,543	453	3,996	(1,051)	(12,511)
Cumulative effect of a change in accounting principle					7,277
Depreciation and amortization	19,022	30,861	49,883	52,307	22,480
Minority interest		(16,575)	(16,575)	(11,734)	(1,284)
Equity in (earnings) loss of unconsolidated ventures, net	197	641	838	931	(318)
Loss on discontinued operations		128	128	842	751
Amortization of deferred gain	(1,152)	(6,786)	(7,938)	(2,260)	(539)
Amortization of entrance fees	(15)	(18)	(33)		
Proceeds from deferred entrance fee revenue	486	700	1,186		
Deferred income taxes provision (benefit)	150	(247)	(97)	10,630	(290)
Change in deferred lease liability	5,895	17,857	23,752	4,588	1,102
Change in fair value of derivatives	88	(4,080)	(3,992)	(3,176)	
Compensation expenses related to restricted stock grants.	11,534	11,146	22,680		
Long-term debt deferred interest and subsequent fee added to principal, net of \$ , \$ , \$ , \$2,342 and \$2,176 paid, respectively				1,380	798
Changes in operating assets and liabilities:					
Accounts receivable, net	917	(3,478)	(2,561)	1,457	887
Prepaid expenses and other assets, net	(3,825)	703	(3,122)	1,057	1,146
Accounts payable and accrued expenses	8,555	5,192	13,747	3,865	(1,901)
Tenant refundable fees and security deposits	108	1,715	1,823	1,938	13

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Other	(11,954)	(3,875)	(15,829)	(852)	950
Net cash provided by operating activities	9,093	7,807	16,900	50,128	34,111

F-6

---

**BROOKDALE SENIOR LIVING INC.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (Continued)**  
(In thousands)

	For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
			2005	2004	2003
<b>Cash Flows from Investing Activities</b>					
Acquisition of leased facilities	\$ (79,979)	\$	\$ (79,979)	\$ 265	\$
Increase in lease security deposits and lease acquisition deposits, net	491	254	745	(70)	(6,518)
(Increase) decrease in cash and investments restricted	6,729	(8,266)	(1,537)	5,421	5,891
Increase in investment certificates restricted					(5,004)
Net proceeds from sale of property, plant and equipment		15,446	15,446	24,023	80,622
Additions to property, plant and equipment, net of related payables	(25,872)	(489,206)	(515,078)	(37,951)	(7,291)
Proceeds from sale leaseback, net of costs				520,043	
Cash and cash equivalents from the combination of Alterra					57,972
Increase in reimbursable development costs					(11,139)
Purchase of venture partner's interest					(10,533)
Distribution from unconsolidated venture				3,772	1,915
Proceeds from sale of partnerships, net of minority interests				9,228	
Net cash provided by (used in) investing activities	(98,631)	(481,772)	(580,403)	524,731	105,915
<b>Cash Flows from Financing Activities</b>					
Proceeds from debt	54,000	468,756	522,756	79,809	29,161
Repayment of debt	(77,459)	(182,558)	(260,017)	(312,355)	(111,220)

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Payment of dividends	(14,355)	(20,000)	(34,355)	(304,577)	
Proceeds from unsecured lines of credit				94,200	96,500
Repayment of unsecured lines of credit				(99,200)	(109,702)
Proceeds from notes payable to affiliates					10,633
Payment of financing costs		(3,425)	(3,425)	(2,346)	(1,102)
Refundable entrance fees: Proceeds from refundable entrance fees	1,513	2,530	4,043		
Refunds of entrance fees	(1,065)	(1,670)	(2,735)		
Payment of swap termination		(14,065)	(14,065)		
Proceeds from issuance of common stock, net of underwriters discount	151,269	500	151,769		
Costs incurred related to initial public offering	(6,434)		(6,434)		
Capital contributions from controlling shareholder		196,790	196,790		
Net cash provided by (used in) financing activities	107,469	446,858	554,327	(544,469)	(85,730)
Net increase (decrease) in cash and cash equivalents	17,931	(27,107)	(9,176)	30,390	54,296
Cash and cash equivalents at beginning of period	59,751	86,858	86,858	56,468	2,172
Cash and cash equivalents at end of period	\$ 77,682	\$ 59,751	\$ 77,682	\$ 86,858	\$ 56,468

F-7

**BROOKDALE SENIOR LIVING INC.**  
**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS (Continued)**  
(In thousands)

	For the Period from October 1, 2005 to December 31, 2005	For the Period from January 1, 2005 to September 30, 2005	For the Years Ended December 31,		
			2005	2004	2003
<b>Supplemental Disclosure of Cash Flow Information:</b>					
Interest paid	\$ 12,896	\$ 32,896	\$ 45,792	\$ 61,844	\$ 25,656
Income taxes paid	\$ 259	\$ 2,377	\$ 2,636	\$ 836	\$ 149
Reorganization costs paid	\$	\$	\$	\$	\$ 10,846
Write-off of fully amortized intangible asset	\$ 3,815	\$ 4,403	\$ 8,218	\$	\$
Write-off of deferred costs	\$ 702	\$ 453	\$ 1,155	\$	\$
<b>Supplemental Schedule of Noncash Operating, Investing and Financing Activities:</b>					
In connection with net operating lease transactions and property acquisitions assets acquired and liabilities assumed were as follows:					
Property, plant and equipment excluding write-off of accumulated depreciation totaling \$9,577 in 2003	\$ 164,903	\$	\$ 164,903	\$	\$ 415,761
Cash and investments restricted, current				1,300	14,023
Accounts receivable assumed				47	
Prepaid expenses and other assumed	5,157		5,157	22	
Other asset assumed					485
Lease security deposits redeemed					(156,787)
Deferred costs paid by lessor				112	
Accrued real estate taxes assumed				(454)	

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Trade accounts payable assumed				(117)	
Tenant refundable entrance fees and security deposits assumed				(1,036)	
Other current liabilities assumed				(139)	
Debt assumed	(119,775)		(119,775)		(274,641)
Accrued interest assumed					(1,088)
Other liabilities	7,215		7,215		2,247
Net cash paid (received)	\$ 57,500	\$	\$ 57,500	\$ (265)	\$
Consolidation of the development properties pursuant to FIN 46R (note 2):					
Property, plant and equipment	\$	\$	\$	\$	\$ 300,405
Other assets assumed					8,789
Investment certificates restricted					(58,484)
Development fees receivable					(9,000)
Reimbursable development costs					(42,584)
Debt assumed					(191,543)
Accrued interest assumed					(2,912)
Accrued real estate taxes					(768)
Security deposits assumed					(2,415)
Other liabilities assumed					(1,488)
Net cash paid	\$	\$	\$	\$	\$
Investment in unconsolidated ventures, net purchase of venture partner's interest in GFB-AS Investors, LLC Other assets acquired					
Investment in unconsolidated ventures	\$	\$	\$	\$	\$ 12,641
Minority interests					(1,926)
					(182)
Net cash paid	\$	\$	\$	\$	\$ 10,533
Reclassification of property, plant and equipment to investment in unconsolidated ventures in connection with formation of Brookdale Senior Housing,	\$	\$	\$	\$	\$ 15,229

LLC, net.

See accompanying notes to consolidated and combined financial statements.

F-8

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

**1. Organization**

Brookdale Senior Living Inc. ( BSL ) was formed as a Delaware corporation on June 28, 2005. Under the Certificate of Incorporation, the Company was initially authorized to issue up to 5,000 common shares and 5,000 of preferred shares. On September 30, 2005, our Certificate of Incorporation was amended to authorize up to 200,000 common shares and 50,000 preferred shares. We provide services to the elderly through facilities located in urban and suburban areas of major markets in the United States.

On September 30, 2005, the holders of all equity shares or membership interests in Brookdale Living Communities, Inc. ( BLC ), Alterra Healthcare Corporation ( Alterra ), FIT REN LLC ( FIT REN ) and Fortress CCRC Acquisition LLC ( Fortress CCRC ) contributed their ownership interests to BSL for common shares of BSL. Simultaneously with the formation transaction, FIT II, as defined below, contributed its membership interest in FIT REN to FEBC in exchange for common shares of BSL. A summary of the common shares issued by BSL for the respective interests is as follows:

BLC		20,000
Alterra	18,000	
FIT REN	11,750	29,750
Fortress CCRC		8,250
		58,000

On November 22, 2005, we consummated our initial public offering of 12,732,800 shares of common stock, par value \$0.01 per share, consisting of 8,560,800 primary shares (including 1,660,800 shares pursuant to the option granted by us to the Underwriters to purchase up to an additional 1,660,800 shares of common stock to cover over-allotments) and 4,172,000 shares sold by the selling stockholders. We did not receive any proceeds from the shares sold by the selling stockholders. We received net proceeds of approximately \$144.8 million, after deducting an aggregate of \$16.9 million in underwriting discounts and commissions paid to the underwriters and an estimated \$6.4 million in other direct expenses incurred in connection with the offering.

Prior to the merger transaction described above, Fortress Investment Group ( FIG ) controlled BLC, Alterra, FIT REN and Fortress CCRC through its ability to exercise voting, financial and investment control over each of the entities through contractual control relationships with and investment advisory agreements over the various entities that own the majority of BLC, Alterra, FIT REN and Fortress CCRC.

Ownership interests in BLC and Alterra representing all interests in the merger not controlled by FIG ( Non-FIG Shareholders ) owned approximately 10.1 million and 4.8 million shares of BLC and Alterra, respectively, collectively 14.9 million of the above shares of common stock representing 50.5% and 26.7% of BLC and Alterra, respectively, collectively 25.7% of the shares outstanding in BSL) were adjusted for financial reporting purposes to the fair value as if their ownership interests in BLC and Alterra were purchased by BSL as of September 30, 2005. This results in partial step-up to the fair value in the assets, liabilities and equity of BSL.

The following table summarizes the step-up in basis to reflect the fair value adjustments relating to the ownership interests of the Non-FIG Shareholders.



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

	<b>Fair Value Adjustment</b>
Property, plant and equipment, net	\$ 176,013
Deferred costs	(2,004)
Investment in unconsolidated ventures	(217)
Goodwill	56,686
 Total assets	 \$ 230,478
Deferred gains	\$ (60,262)
Deferred lease liability	(12,487)
Deferred tax liability	41,689
 Total liabilities	 (31,060)
Stockholders' equity	261,538
 Total liabilities and stockholders' equity	 \$ 230,478

The fair value adjustment to stockholders' equity was calculated as the difference between the historical carrying value of Non-FIG shareholders in BLC and Alterra and their estimated fair value as of September 30, 2005. The fair value was based upon the total number of shares issued by BSL to the Non-FIG.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

Shareholders and valued at the offering price of \$19 per share and allocated to BLC and Alterra based upon the fair value of underlying assets and liabilities. Current assets, certain long-term assets, current liabilities, long-term debt and certain long-term liabilities were valued at their historical costs since fair value approximated their costs. Property, plant and equipment, deferred costs, goodwill, deferred gains and deferred lease liability were valued based upon our accounting policies with regards to these asset and liability categories. Fair value for property, plant and equipment was determined utilizing discounted cash flows derived from the operations of the facilities owned or leased within each company. The discount rates and cap rates used in the valuations are deemed by management to represent current market rates. Deferred costs, deferred gains and deferred lease liability were deemed to have no fair value since there is no future benefit or costs associated with these accounts.

	<b>Total Equity</b>
Contribution of ownership interests	\$ 231,645
Reclass of minority interest to equity in connection with combination	20,412
Minority step-up in basis	261,538
 Equity at September 30, 2005	 \$ 513,595

In June 2005, prior to the formation of BSL, FIT II purchased 50% of the membership interests held by minority members for \$50.0 million. In connection with the purchase Alterra recorded a step-up in basis of assets and liabilities related to the purchase to reflect their fair values.

The combined financial statements include the accounts of Brookdale Living Communities, Inc, ( BLC ) a wholly-owned subsidiary of Fortress Brookdale Acquisition LLC, ( FBA ) and effective December 1, 2003, Alterra Healthcare Corporation ( Alterra or Successor Alterra ), a wholly-owned subsidiary of FEBC ALT Investors, LLC ( FEBC ), effective April 5, 2005, Fortress CCRC Acquisition LLC ( Fortress CCRC ), a wholly-owned subsidiary of Fortress Investment Trust II ( FIT II ) and effective June 21, 2005, FIT REN LLC ( FIT REN ), a wholly-owned subsidiary of FIT II. All entities are indirectly controlled by affiliates of FIG and as such are presented on a combined basis due to their common control. Combined financial statements are presented for all dates and periods prior to September 30, 2005, the date of the merger transaction described above. Subsequent to the transaction, the financial statements are presented on a consolidated basis.

The combined statements are presented on a combined basis due to that fact that FIG controlled each of BLC, Alterra, Fortress CCRC and FIT REN through its voting, financial and investment control over Fortress Registered Investment Trust ( FRIT ) and FIT II. FRIT owned 50.51% of FBA, which owned 100% and 90.1% of BLC as of December 31, 2004 and August 2005, respectively. FIT II owned 100% of each of Fortress CCRC, FIT REN and FIT-ALT Investor LLC ( FIT-ALT ), which owned 73.49% of FEBC, the indirect parent of Alterra, as of August 2005 (as of December 31, 2004, FIT II owned 50% of FEBC and had the right to appoint a majority of the members of the FEBC board).

FIG exercises control over FRIT and FIT II through contractual control relationships with, and investment advisory control over, each of FRIT and FIT II. FRIT and FIT II are wholly-owned subsidiaries of Fortress Investment Fund ( FIF ) and Fortress Investment Fund II ( FIF II ), respectively. Pursuant to various agreements, Fortress Fund MM LLC ( Fund MM ) and Fortress Fund MM II LLC ( Fund MM II ), as managing member of FIF and FIF II, respectively, have the full, exclusive and absolute right, power and authority to manage and control each of FIF and FIF II, and the property, assets, affairs, and business thereof. In addition, the formulation of investment policy of FIF and FIF II is vested exclusively in each of Fund MM and Fund MM II, and any and all rights, including voting rights, pertaining to any Portfolio Investments (as defined in the agreements) may be exercised only by each of Fund MM and Fund MM II. In addition, pursuant to these agreements, the control vested in each of Fund MM and Fund MM II is irrevocably

delegated to FIG, which serves as the managing member of each of these funds. Finally, FIG, through its wholly-owned subsidiary, FIG Advisors LLC, further exercises control over each of FRIT and FIT II in its capacity as investment advisor of each of these funds.

F-11

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

As set forth in the preceding paragraphs, since FIG controls more than 50 percent of the voting ownership interest of BLC, Alterra, Fortress CCRC and FIT REN, pursuant to EITF Opinion No. 02-5 *Definition of Common Control in relation to FASB Statement No. 141*, the Company is presenting combined financial statements.

A summary of the changes in total equity and minority interests from December 31, 2004 to September 30, 2005 prior to the contribution to BSL is as follows:

	<b>Total Owners' Equity</b>	<b>Minority Interests</b>	<b>Total</b>
Balance at December 31, 2004	\$ 40,091	\$ 31,363 <sup>(1)</sup>	\$ 71,454
Dividends	(34,355)		(34,355)
Purchase of non-controlling interest in Alterra	50,000	(2,543)	47,457
Combination of Fortress CCRC LLC and FIT REN LLC	199,423		199,423
Issuance of stock in BLC		500	500
Vesting of restricted shares	6,399	4,747	11,146
Allocation to minority interest in connection with stock grant	(2,717)	2,717	
Loss from continuing operations	(26,402)	(16,575)	(42,977)
Discontinued operations	(128)	483	355
Unrealized loss on derivatives	(666)	(280)	(946)
Balance at September 30, 2005 prior to contribution to BSL	\$ 231,645	\$ 20,412	\$ 252,057

(1) Reconciliation  
to December 31,  
2004 combined  
balance sheet:

Minority interest per above	\$ 31,363
Minority interest related to unconsolidated joint ventures	36
Minority interest at December 31, 2004	\$ 31,399

**Combined Presentation**  
**BLC**

BLC was incorporated in Delaware on September 4, 1996 and commenced operations upon completion of its initial public offering which closed on May 7, 1997. During the year ended December 2000, FBA acquired the outstanding stock of BLC in an all cash transaction and Health Partners, a Bermuda exempted partnership ( Health Partners ) agreed to contribute its convertible subordinated note originally due 2009 in exchange for stock of FBA. FBA was owned by FRIT, Health Partners, Fortress Brookdale Investment Fund LLC, and management prior to September 30, 2005. As of December 31, 2004, BLC owned or leased 49 facilities and managed or served as management consultant for 19 facilities for third party and affiliated owners.

FBA sold 100% of the common stock of the predecessor to BLC, which was also known as Brookdale Living Communities, Inc., or Old Brookdale, to Provident Senior Living Trust ( Provident ) on October 19,

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

2004. Prior to the sale, Old Brookdale distributed certain assets and liabilities to a newly formed subsidiary which was later renamed Brookdale Living Communities, Inc. For financial reporting purposes our operations include that of Old Brookdale prior to and BLC subsequent to the Provident transaction.

**Alterra**

Substantially all of the membership interests in FEBC were held by FIT-ALT, a wholly-owned subsidiary of FIT II, Emeritus Corporation ( Emeritus ), and NW Select, LLC prior to September 30, 2005. Alterra owns and operates assisted living residences. As of December 31, 2004, the Successor Alterra operated and managed 300 residences located in 21 states throughout the United States.

On November 26, 2003, a U.S. Bankruptcy Court entered an order confirming Alterra's Second Amended Plan of Reorganization. Alterra executed an Agreement and Plan of Merger ( Merger Agreement ) with FEBC, pursuant to which FEBC would acquire 100% of the common stock of the Company upon emergence from the Chapter 11 bankruptcy proceeding. Pursuant to the Merger Agreement, FEBC would pay Successor Alterra \$76.0 million of merger consideration, which may be adjusted downward in certain circumstances. FEBC was capitalized with \$76.0 million including (i) a \$15.0 million senior loan to FEBC from an affiliate of FIT II and (ii) \$61.0 million of aggregate equity contributions. FIT II provided approximately 75% of the equity investment to FEBC and is entitled to appoint a majority of the directors of Alterra. Emeritus Corporation and NW Select LLC provided the remaining equity capital to FEBC and is entitled to appoint one director.

Alterra emerged from bankruptcy on December 4, 2003 (the Effective Date).

Settlement between Alterra and the committee of unsecured creditors was finalized and approved by the Bankruptcy Court on December 29, 2004, for a total fixed distributable amount of \$2.45 million. Payment of the settlement will be made when all unsecured claims are determinable and liquidated. This settlement was included in the fresh start adjustments recognized in 2004 as an increase in current liabilities and an increase in property, plant and equipment.

On the Effective Date, Alterra adopted fresh start accounting pursuant to the guidance provided by the American Institute of Certified Public Accountant's Statement of Position (SOP) 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*. For financial reporting purposes, Alterra adopted the provisions of fresh start accounting effective December 1, 2003. In accordance with the principles of fresh start accounting, Alterra has adjusted its assets and liabilities to their fair values as of December 1, 2003. Alterra's reorganization value was determined to be equal to the cash amount paid for all of the outstanding common stock of Alterra plus the post-emergence liabilities existing at the reorganization date. To the extent the fair value of its tangible and identifiable intangible assets net of liabilities exceeded the reorganization value, the excess was recorded as a reduction of the amounts allocated to property and equipment and leasehold intangibles.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

Alterra's condensed consolidated balance sheet reflecting the application of fresh start accounting as of December 1, 2003 is summarized as follows (\$ in 000's):

**Assets**

## Current assets:

Cash and cash equivalents	\$ 57,972
Accounts receivable, net	8,014
Assets held for sale	52,537
Prepaid expenses and supply inventory	15,446
Other current assets	8,881

Total current assets	142,850
----------------------	---------

Property and equipment, net	392,298
Other assets	17,556

Total assets	\$ 552,704
--------------	------------

## Current liabilities:

Current installments of long-term obligations	\$ 68,951
Current debt maturities on assets held for sale	49,214
Accounts payable	4,880
Accrued expenses	74,777
Other liabilities	12,381

Total current liabilities	210,203
---------------------------	---------

Long-term obligations, less current installments	264,256
Other long-term liabilities	2,245

Total liabilities	476,704
-------------------	---------

Stockholders' equity	76,000
----------------------	--------

Total liabilities and stockholders' equity	\$ 552,704
--	------------

In June 2005, FIT II purchased 50% of the membership interests held by Emeritus and NW Select, LLC for \$50.0 million. In connection with the purchase Alterra recorded a step-up in the basis of assets and liabilities related to the purchase to reflect their fair values. A summary of the adjustment is as follows:

Property, plant and equipment	\$ 9,964
Operating leases	31,730
Deferred costs and other, net	(645)

Total Assets	\$ 41,049
--------------	-----------

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Deferred gains	(5,142)
Deferred lease liability	(1,266)
Purchase of minority interest	(2,543)
Total liabilities	(8,951)
Equity	50,000
Total liabilities and equity	\$ 41,049

F-14

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

**Fortress CCRC Portfolio**

On April 5, 2005, an affiliate of FIT II, Fortress CCRC, purchased eight facilities for a combined purchase price of \$210.5 million, including closing costs and including the assumption of \$24.4 million, of refundable entrance fee obligations, which were allocated \$199.5 million, to real estate and \$11.0 million, to lease intangibles.

**Prudential Portfolio**

On June 21, 2005, FIT REN purchased eight facilities for an aggregate of \$258.0 million, including closing costs, which was allocated as follows: \$251.9 million to real estate and \$6.1 million to lease intangibles. In connection with the purchase, FIT REN obtained \$151.4 million of first mortgage financing. Prior to the acquisition, FIT REN entered into a \$170.0 million forward swap of which \$151.0 million was attributed to the eight facilities. At closing FIT REN terminated \$151.0 million of the forward swap and incurred a loss of \$2.4 million. The loss is included in other comprehensive loss and will be amortized as an adjustment to interest expense over the term of the hedged debt.

On July 22, 2005 FIT REN acquired a ninth facility for \$27.9 million located in Santa Monica, CA. At closing, FIT REN terminated the remaining \$19.0 million forward swap and incurred a loss of \$0.2 million which will be included in other comprehensive income and amortized as an adjustment to interest expense over the term of the hedged debt.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying consolidated and combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ). All significant intercompany balances and transactions have been eliminated.

For the year ended December 31, 2005, we have aggregated the consolidated financial statements of the Company for the three months ended December 31, 2005, and combined statements for the nine months ended September 30, 2005. The financial statements are presented on a combined basis, in accordance with GAAP for the years ended December 31, 2004 and 2003. For financial reporting purposes the non-controlling shareholders or members (ownership interests other than those controlled by FIG) have been presented as minority interest. Upon consummation of the formation transaction on September 30, 2005, the minority interests were consolidated as shareholders of BSL and their interest reflected at fair value in accordance with SFAS No. 141 Business Combinations.

***Principles of Consolidation***

In December 2003, the Financial Accounting Standards Board ( FASB ) issued a revised Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of ARB No. 51 ( FIN 46R ). This Interpretation addresses the consolidation by business enterprises of primary beneficiaries in variable interest entities ( VIE ) as defined in the Interpretation. A company that holds variable interests in an entity will need to consolidate the entity if its interest in the VIE is such that it will absorb a majority of the VIE s losses and/or receive a majority of expected residual returns, if they occur. We elected to adopt FIN 46R as of December 31, 2003 and accordingly, consolidated the entities as of December 31, 2003 in the accompanying financial statements.

On March 1, 2005 and December 30, 2005, we obtained legal title to four VIE s (The Meadows of Glen Ellyn, The Heritage of Raleigh, Trillium Place and The Hallmark of Creve Coeur facilities) and one VIE (the Hallmark of Battery Park City), respectively. The five VIE s were previously consolidated pursuant to FIN 46R, the legal acquisition of the facilities had minimal accounting impact.



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

<b>Facilities</b>	<b>Total Units (Unaudited)</b>
The Meadows of Glen Ellyn.	234
The Heritage of Raleigh	219
The Hallmark, Battery Park City	217
Trillium Place	216
The Hallmark of Creve Coeur	218
	1,104

***Investment in Unconsolidated Ventures***

The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures that are not considered VIEs as we do not possess a controlling financial interest (note 3).

***New Accounting Pronouncements***

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised), *Share-Based Payment*, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This Statement will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. This Statement will be effective for us as of January 1, 2006. We adopted SFAS 123R in connection with the granting of our predecessors initial stock compensation grant of restricted stock effective August 2005 (note 15).

In June 2005, the FASB issued EITF Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-05). EITF 04-05 provides guidance in determining whether a general partner controls a limited partnership that is not a VIE and thus should consolidate the limited partnership. The effective date is June 29, 2005, for all new limited partnerships and existing limited partnerships for which the partnership agreements are modified and no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005 for all other limited partnerships. We adopted EITF 04-05 effective January 1, 2006 and do not expect it to have a significant impact on our consolidated financial statements.

***Use of Estimates***

The preparation of the consolidated and combined financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported and disclosures of contingent assets and liabilities in the consolidated balance sheet and accompanying notes. Actual results could differ from those estimates and assumptions.

***Cash and Cash Equivalents***

We consider all investments with an original maturity of three months or less to be cash equivalents.

***Accounts Receivable***

Accounts receivable are reported net of an allowance for doubtful accounts, to represent our estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$3.0 million, and \$2.9 million as of December 31, 2005 and 2004, respectively. The adequacy of our allowance for doubtful



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary.

**Revenue Recognition**

*Resident Fee Revenue*

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.

*Entrance Fees*

Three facilities have residency agreements which require the resident to pay an upfront fee prior to occupying the facility. Generally we have no further obligation to provide healthcare or reduce the future monthly fee paid by the tenant. In two of our facilities a portion of the entrance fee is refundable and a portion non-refundable. In the third facility the entrance fee is refundable to the resident pro rata over a 67-month period.

The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident. The refundable portion is generally refundable upon the sale of the unit, or in certain agreements upon the resale of a comparable unit or 12 months after the resident vacates the unit. All refundable amounts due to residents are classified as current liabilities.

	<b>December 31, 2005</b>		<b>Total</b>
	<b>Refundable Current Liabilities</b>	<b>Nonrefundable (Deferred Revenue)</b>	
Balance at October 1, 2005	\$ 25,257	\$ 682	\$ 25,939
Additions	1,513	486	1,999
Other	4,991		4,991
Amortization	(3)	(12)	(15)
Refunds	(1,065)		(1,065)
Balance at December 31, 2005	\$ 30,693	\$ 1,156	\$ 31,849

	<b>September 30, 2005</b>		<b>Total</b>
	<b>Refundable Current Liabilities</b>	<b>Nonrefundable (Deferred Revenue)</b>	
Beginning balance in April 2005 (assumed at closing)	\$ 24,397	\$	\$ 24,397
Additions	2,530	700	3,230
Amortization		(18)	(18)
Refunds	(1,670)		(1,670)
Balance at September 30, 2005	\$ 25,257	\$ 682	\$ 25,939

*Management Fee Revenue*

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



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

**Cash and Investments Restricted**

Cash and investments restricted consist principally of deposits required by certain lenders and lessors pursuant to the applicable agreement and consist of the following:

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Current:		
Real estate taxes	\$ 10,385	\$ 8,281
Tenant security deposits	12,241	5,089
Replacement reserve and other	14,688	3,139
Construction loan collateral		4,019
Subtotal	37,314	20,528
Non-current:		
Collateral deposit for interest rate swaps	3,966	8,004
Insurance reserves	17,633	17,918
Debt service reserves	2,500	1,537
Subtotal	24,099	27,459
Total	\$ 61,413	\$ 47,987

Eight facilities located in Illinois are required to make escrow deposits under the Illinois Life Care Facility Act. As of December 31, 2005 and 2004, required deposits were \$13.5 million and \$8.5 million, respectively, all of which were made in the form of letters of credit.

**Assets Held for Sale**

We record an impairment loss on facilities held for sale whenever their carrying value cannot be fully recovered through the estimated cash flows, including net sale proceeds. The amount of the impairment loss recognized is the difference between the carrying value and the estimated fair value less costs to sell. Our policy is to consider a facility to be held for sale when we have committed to a plan to sell such facility and active marketing activity has commenced or it is expected to commence in the near term. Depreciation is suspended during the period the assets are held for sale.

**Income Taxes**

Income taxes are accounted for under the asset and liability approach which requires recognition of deferred tax assets and liabilities for the differences between the financial reporting and tax bases of assets and liabilities. A valuation allowance reduces deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fortress CCRC and FIT REN are limited liability companies and as such the liability for such taxes is that of the members. Accordingly, for purposes of the combined statements, no provision for Federal and state income taxes has been included for these entities.

**Property, Plant and Equipment**

Property, plant and equipment are carried at cost less accumulated depreciation. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset are capitalized and depreciated over their estimated useful life, or if the

renovations or improvements are made with respect to facilities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating

F-18

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

lease. Facility operating expenses excludes depreciation and amortization directly attributable to the operation of the facility.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets and Long-Lived Assets to Be Disposed*, we will record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets during the expected hold period are less than the carrying amounts of those assets. Impairment losses will be measured as the difference between carrying value and fair value of assets.

We allocate the purchase price of facilities to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions SFAS No. 141, *Business Combinations*. In making estimates of the fair values of the tangible and intangible assets for purposes of allocating purchase price, we consider information obtained about each property as a result of its pre-acquisition due diligence, marketing, leasing activities and independent appraisals.

We allocate a portion of the purchase price to the value of leases acquired based on the difference between the facilities valued with existing in-place leases adjusted to market rental rates and the property valued as if vacant. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes estimates of lost rentals during the lease-up period and estimated costs to execute similar leases. The value of in-place leases is amortized to expense over the remaining initial term of the respective leases.

Depreciation is provided on a straight-line basis over the estimated useful lives of assets, which are as follows:

<b>Asset Category</b>	<b>Estimated Useful Life</b>
Buildings and improvements	40 years
Leasehold intangibles and improvements	1 - 18 years
Furniture and equipment	3 -- 7 years
Resident lease intangibles	1 - 2 years
<b><i>Deferred Costs</i></b>	

Deferred financing and lease costs are recorded in other assets and amortized on a straight-line basis, which approximates the level yield method, over the term of the related debt or lease.

***Fair Value of Financial Instruments***

Cash and cash equivalents, cash and investments-restricted and variable rate debt are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term fixed rate debt using a discounted cash flow analysis based upon our current borrowing rate for debt with similar maturities. As of December 31, 2005 and 2004, the fair value of fixed rate debt approximates its book value.

***Derivative Financial Instruments***

In the normal course of business, we use a variety of financial instruments to manage or hedge interest rate risk. We have entered into certain interest rate protection and swap agreements to effectively cap or convert floating rate debt to a fixed rate basis, as well as to hedge anticipated future financing transactions. All derivative instruments are recognized as either assets or liabilities in the consolidated and combined balance sheet 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 income (loss) depending upon whether it has been designated and qualifies as part of a hedging relationship.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

We do not enter into derivative contracts for trading or speculative purposes. Furthermore, we have a policy of only entering into contracts with major financial institutions based upon their credit rating and other factors.

***Goodwill***

Goodwill relates to the minority step-up in basis in connection with the formation transaction and FBA's acquisition of BLC in 2000 at December 31, 2005 and 2004, respectively. This cost is not amortized and we perform an annual impairment test in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. We will record impairment losses on the goodwill acquired when events and circumstances indicate that the asset might be impaired. Impairment losses are measured as the difference between carrying value and fair value of our net assets.

As more fully described in note 11, we sold certain facilities to which we had allocated the goodwill based upon the relative fair values at the point in time that the original goodwill arose. Included in the deferred gain calculation is the write-off of \$35,689 of goodwill associated with the facilities sold.

***Self-Insurance Liability Accruals***

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Although we maintain general liability and professional liability insurance policies for our owned, leased and managed facilities under a master insurance program, our current policy provides for deductibles of \$1.0 million for each and every claim. As a result, we are self-insured for most claims. In addition, we maintain a self-insured workers compensation program and a self insured employee medical program, for amounts below excess loss coverage amounts, as defined. We review the adequacy of our accruals related to these liabilities on an ongoing basis, using historical claims, actual valuations, third party administrator estimates, consultants, advice from legal counsel and industry data, and adjust 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.

***Dividend***

On March 14, 2006, our Board of Directors declared a quarterly cash dividend of our common stock of \$0.35 per share, or an aggregate of \$23.2 million for the quarter ended March 31, 2006. The \$0.35 per share dividend is payable on April 14, 2006 to holders of record of our common stock on March 31, 2006. On December 15, 2005, our Board of Directors declared a quarterly cash dividend of our common stock of \$0.25 per share, or an aggregate of \$16.5 million for the three months ended December 31, 2005. The \$0.25 per share dividend is payable on January 16, 2006 to holders of record of our common stock on December 30, 2005.

On September 30, 2005, our board of directors declared a dividend of \$0.25 per share of our common stock, or an aggregate of \$14.4 million, for the three months ended September 30, 2005, which we paid on October 7, 2005.

In June 2005, prior to the formation of BSL, FIT II declared and paid a \$20.0 million dividend to FIG.

***Comprehensive Income***

SFAS No. 130, *Reporting Comprehensive Income*, establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes net income and all other non-owner changes in shareholders' equity during a period including unrealized gains and losses on equity securities classified as available-for-sale and unrealized fair value adjustments on certain derivative instruments net of any related income tax effect. Net loss equals comprehensive loss for the



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

years ended December 31, 2004 and 2003. Comprehensive loss for the three months and year ended December 31, 2005 and nine months ended September 30, 2005, equals \$22.1 million, \$49.3 million and \$27.2 million, respectively.

***Earnings Per Share***

The company computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share is computed by dividing net income/(net loss) by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income/(net loss) by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of restricted stock grants issued during 2005. Common stock grants are excluded from the computation of diluted earnings per share for the period from October 1, 2005 to December 31, 2005 of their effect is anti-dilutive. The weighted average restricted stock grants excluded from the calculations of diluted net loss per share were 2.1 million for the year ended December 31, 2005.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the period from October 1, 2005 to December 31, 2005:

Numerator:	
Net loss	\$ (24,456)
Denominator:	
Basic and diluted loss per share:	
Weighted average common shares outstanding	59,710
Basic and diluted loss per share	\$ (0.41)

We have excluded the earnings (loss) per share data for the nine months ended September 30, 2005 and years ended December 31, 2005, 2004 and 2003. We believe these calculations are not meaningful to investors due to the different ownership and legal structures (e.g., corporation and limited liability companies) of the various entities prior to the combination transaction on September 30, 2005.

***Advertising Costs***

Advertising costs are expensed as incurred and were \$1.6 million for the period from October 1, 2005 to December 31, 2005, \$4.6 million for the nine months ended September 30, 2005 and \$6.2 million, \$6.0 million and \$2.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

***Facility Leases***

We, as lessee, make a determination with respect to each of the facility leases whether they should be accounted for as operating leases or capital leases. We base our classification criteria on estimates regarding the fair value of the leased facility, minimum lease payments, our effective cost of funds, the economic life of the facility and certain other terms in the lease agreements. Facilities under operating leases are accounted for in our statement of operations as lease expense for actual rent paid plus or minus a straight-line adjustment for estimated minimum lease escalators and amortization of deferred gains in situations where sale-leaseback transactions have occurred. For facilities under capital lease and lease financing obligation arrangements, a liability is established on our balance sheet and a corresponding long-term asset is recorded. In addition, we amortize leasehold improvements purchased during the term of the lease over the shorter of their economic life or the lease term. Sale lease back transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

All of our leases contain fixed or formula based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease. In addition, we recognize all rent-free or rent holiday periods in operating leases on a straight-line basis over the leased term, including the rent holiday period.

A summary of facility lease expense and the impact of straight-line adjustment and amortization of deferred gains are as follows:

	<b>For the Period from October 1, 2005 to December 31, 2005</b>	<b>For the Period from January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended December 31,</b>		
			<b>2005</b>	<b>2004</b>	<b>2003</b>
Cash basis payment	\$ 43,744	\$ 129,781	\$ 173,525	\$ 97,669	\$ 30,181
Straight-line expense	5,895	17,857	23,752	4,588	1,102
Amortization of deferred gain	(1,152)	(6,786)	(7,938)	(2,260)	(539)
Facility lease expense	\$ 48,487	\$ 140,852	\$ 189,339	\$ 99,997	\$ 30,744

***Sale Leaseback***

Sale leaseback accounting is applied to transactions in which a residence is sold and leased back from the buyer. Under sale leaseback accounting, we remove the property and related liabilities from the balance sheet. Gain on the sale is deferred and recognized as a reduction of rent expense for operating leases and a reduction of amortization expense for capital leases.

***Reclassifications***

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

**3. Investment in Unconsolidated Ventures**

***GFB-AS Investors, LLC***

On January 30, 2001, BLC acquired a 45% interest in GFB-AS Investors, LLC ( GFB ), a Delaware limited liability company, and GFB, in turn, acquired management contract rights, loans receivable, and the equity interests in the general partners of various partnerships (the GC Property Partnerships ) previously owned or controlled by affiliates of Grand Court Lifestyles, Inc. Each GC Property Partnership owns a senior housing facility (the GC Facilities ).

The total initial investment in GFB was \$12.8 million, of which our share was \$5.7 million. On September 7, 2002, GFB purchased a portion of the limited partners' interests in 15 of the GC Property Partnerships. The members contributed an additional \$2.6 million to fund these purchases of which the Company's share was \$1.1 million. Our investment in GFB was funded from the proceeds of a loan made by our majority shareholder which bore interest at 15% per annum. We accounted for GFB's limited partner interests in the GC Property Partnerships under the equity method of accounting.

On May 29, 2003, we purchased the remaining 55% interest in GFB for \$10.5 million, all of which was funded by additional loans made by the shareholders of FBA. The existing loan to the majority shareholder was amended and restated in connection with the transaction and a restatement fee (as defined) of \$0.9 million incurred and included in interest expense in the accompanying consolidated statement of operations.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

We incurred interest totaling \$1.1 million and \$3.4 million on the shareholder loans for the years ended December 31, 2004 and 2003, respectively.

F-23

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

For financial reporting purposes, the assets acquired and liabilities assumed, as well as the results of operations of GFB subsequent to May 29, 2003, are included in our consolidated financial statements. We accounted for our investment in GFB under the equity method prior to that date due to lack of control. The portion of the purchase price allocated to GFB's assets is included in other long-term assets in the accompanying combined balance sheets.

As of December 31, 2005, 2004 and 2003, we have management consulting and supervisory agreements with 3, 3 and 19 GC Facilities, respectively, providing for a fee payable in the amount of 2.8% of the gross revenues. Fees from the GC Facilities totaled \$0.1 million and \$0.4 million for the three months and year ended December 31, 2005, \$0.3 million for the nine months ended September 30, 2005 and \$0.8 million and \$2.4 million for the years ended December 31, 2004 and 2003, respectively.

During the three months ended March 31, 2004, 14 GC Property Partnerships in which GFB had general and limited partnership interests, sold the facilities to Ventas, Inc. (note 9). Upon the sale of the 14 GC Facilities and one additional GC Facility, we received approximately \$9.2 million from our investment in loans receivable and \$4.0 million from our general and limited partnership interests. We did not recognize any gain or loss related to these transactions.

***Brookdale Senior Housing, LLC***

On November 27, 2002, we purchased The Heritage at Gaines Ranch, a 208-unit facility located in Austin, Texas ( Austin ), The Heritage of Southfield, a 217-unit facility located in Southfield, Michigan ( Southfield ), and The Devonshire of Mt. Lebanon, a 218-unit facility located in Mt. Lebanon (Pittsburgh), Pennsylvania ( Mt. Lebanon ) which were developed and managed for third party owners. The total purchase price included cash of \$41 plus the assumption of all liabilities, including \$76.1 million of first mortgage loans and \$13.4 million of mezzanine financing.

The first mortgage notes payable totaling \$76.1 million were originally due September 26, 2002 and March 11, 2003. The mortgage loans were cross-collateralized and partially guaranteed by BLC. Upon the non-payment of the mortgage loans due September 26, 2002, the first mortgage lender declared an event of default and accelerated the due date on the remaining loan.

We reached an agreement with the first mortgage lender on August 8, 2003 to restructure the first mortgage loans which gave us the right to payoff the first mortgage loans at an agreed upon amount on or before December 31, 2003. For the period November 1, 2002, through August 8, 2003 the lender retained all rental receipts and we paid certain of the facilities operating expenses. The agreement also provided, among other things, for the first mortgage lender to forbear with respect to the acceleration notices and interest to accrue on the loan balances at the stated rate of LIBOR plus 3%. The mezzanine loans related to the Austin and Southfield facilities also matured on September 26, 2002 and we reached an agreement with the subordinated lender to forbear on all claims until February 1, 2004.

On September 30, 2003, we formed the Brookdale Senior Housing, LLC joint venture ( Venture ) with a third party ( Venture Partner ) and effectively sold 75% of our interest in the Southfield and Mt. Lebanon facilities. The Venture owns the Southfield and Mt. Lebanon facilities and provided mezzanine financing for the Austin facility. The Venture was capitalized with \$66.3 million of cash of which \$144 was contributed by us and the balance of \$66.2 million from the Venture Partner in the form of \$35.8 million of equity and \$30.3 million first mortgage financing. The first mortgage loans are secured by the Southfield and Mt. Lebanon facilities payable interest only at the rate of 6.75% through September 30, 2008 and 7.25% through maturity on October 1, 2009. The difference between the carrying amount of this investment and the value of the underlying equity is amortized as an adjustment to earnings from unconsolidated joint ventures.

The Venture made a \$12.7 million mezzanine loan to the Austin facility payable interest at the rate of all available cash flow, as defined, and entitled the Venture to receive all appreciation in the facility. In addition,

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

the Venture Partner made a first mortgage loan of \$16.4 million secured by the Austin facility and on the same terms as the Southfield and Mt. Lebanon first mortgage loans.

The Venture agreement provides that all operating cash flow is distributed to the Venture Partner until they receive a 16% cumulative preferred return and then 60% to the Venture Partner and 40% to us. Sale or refinancing proceeds are to be distributed first to the Venture Partner until they receive their cumulative preferred return; second to the venture partner until they receive the return of their contributed equity; and then 60% to the Venture Partner and 40% to us. Additional capital contributions, if any, are to be contributed 75% by the Venture Partner and 25% by us.

In connection with the sale of its interest in the Southfield and Mt. Lebanon facilities to the Venture, we received net proceeds of \$51.6 million, which resulted in a loss on the sale of \$24.5 million. The Company used the proceeds to repay the existing first mortgage and mezzanine loans on the Southfield, Mt. Lebanon and Austin facilities and recognized a gain on extinguishment of debt of \$12.5 million, net of closing costs.

We manage the facilities for a fee equal to 5% of gross revenues. Under certain limited circumstances the venture partner has the right to terminate the management agreement.

Combined summarized financial information of the unconsolidated joint ventures accounted for using the equity method as of December 31, are as follows:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Statement of Operations Data:</b>			
Total revenue	\$ 11,179	\$ 10,701	\$ 3,977
Expenses:			
Facility operating	8,897	8,162	2,047
Depreciation and amortization	1,629	2,216	690
Interest expense	2,049	2,049	522
Interest income	(2,035)	(1,602)	(423)
Other expense		81	168
Total expense	10,540	10,906	3,004
Net income (loss)	\$ 639	\$ (205)	\$ 973
	<b>2005</b>	<b>2004</b>	
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 444	\$ 1,017	
Mezzanine loan receivable	12,739	12,739	
Property, plant and equipment, net	49,245	50,777	
Other	1,455	1,131	
Total assets	\$ 63,883	\$ 65,664	
Accounts payable and accrued expenses	\$ 1,555	\$ 1,631	
Long-term debt	30,355	30,355	
Members equity	31,973	33,678	
Total liabilities and members equity	\$ 63,883	\$ 65,664	

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Members' equity consists of:		
Invested capital	\$ 35,973	\$ 35,973
Cumulative net income (loss)	400	(239)
Cumulative distributions	(4,400)	(2,056)
Members' equity	\$ 31,973	\$ 33,678

F-25

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

**4. Property, Plant and Equipment**

Property, plant and equipment consist of the following as of December 31:

	<b>2005</b>	<b>2004</b>
Land	\$ 133,280	\$ 44,062
Buildings and improvements	1,212,986	463,490
Furniture and equipment	71,155	40,083
Resident and operating lease intangibles	62,166	9,658
	1,479,587	557,293
Accumulated depreciation and amortization	(70,855)	(33,674)
Property, plant and equipment, net	\$ 1,408,732	\$ 523,619

**5. Assets Sold or Held for Sale**

For the nine months ended September 30, 2005 and year ending December 31, 2004, five and thirteen facilities were sold or disposed, none and two land parcels were sold and approximately \$0.8 million and \$6.7 million in debt was repaid, respectively. As of December 31, 2005, we have no assets held for sale. We have presented separately as discontinued operations in all periods, the results of operations for all consolidated assets disposed of or held for sale.

The following table represents operating information included in the loss on discontinued operations in the consolidated statements of operations are as follows:

	<b>For the Period from January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended December 31,</b>		
		<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenues	\$ 4,676	\$ 4,676	\$ 15,265	\$ 2,669
Operating expenses	5,642	5,642	16,533	3,059
Operating loss	(966)	(966)	(1,268)	(390)
Loss on debt extinguishment				(580)
Gain (loss) on sale or disposal of residences	1,321	1,321	65	(102)
Benefit for income taxes			481	429
Income (loss) on discontinued operations before minority interest	355	355	(722)	(643)
Minority interest	(483)	(483)	361	321
Loss on discontinued operations	\$ (128)	\$ (128)	\$ (361)	\$ (322)

**6. Other Assets**

Other assets are comprised of deferred financing costs, net, employee loan receivable (note 13), and other.

**7. Debt*****Line of Credit Agreement***

As of December 31, 2005 and 2004, we had an available unsecured line of credit of \$23.5 million and \$18.6 million (\$13.5 million and \$8.6 million is only available for certain letters of credit), and there were no borrowings outstanding. Borrowings under the line of credit accrue interest at the prime rate plus 1.00% (prime rate 7.25% and 5.25% at December 31, 2005 and 2004). We pay a quarterly fee of 1/8% per annum on the unused amounts under the lines of credit. Pursuant to the terms of the credit agreement, we must maintain certain debt service coverage ratios. The line of credit was terminated on February 10, 2006 (note 17).

F-26

---



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

As of December 31, 2005 and 2004, we had additional outstanding letters of credit totaling \$6.6 million and \$3.3 million with other financial institutions to secure our obligations under self-insured retention risks and required lease deposits. The total amount of letters of credit outstanding as of December 31, 2005 and 2004 were \$31.0 million and \$15.7 million.

***Long-term Debt, Capital Leases and Financing Obligations***

Long-term debt, capital leases and financing obligations consist of the following:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
Mortgage notes payable due 2008 through 2012 weighted average interest at rates of 5.55% in 2005 (weighted average interest rate 6.42% in 2004)	\$ 70,422	\$ 24,578
Mortgages payable, due from 2005 through 2037; weighted average interest rate of 9.12% in 2005 (weighted average interest rate of 6.46% in 2004)	74,704	75,903
\$150,000 Series A and \$32,000 Series B (repaid from initial public offering proceeds in November 2005) notes payable, secured by development properties, bearing interest at LIBOR plus 3.05% and 5.60%, respectively (weighted average rate 3.50%), payable in monthly installments of interest only, with an initial maturity date of April 1, 2008 and 50% guaranteed by BLC(a)	150,000	
Construction and mezzanine loans payable secured by development properties consolidated pursuant to FIN 46R bearing interest at rates ranging from LIBOR plus 2.30% to LIBOR plus 3.50% (floor of 5.50%) and 15.65%-19.50%, respectively, payable in monthly installments and \$153,567 guaranteed by BLC (b)		179,248
Mortgages payable due 2012, weighted average interest rate of 5.38%, payable interest only through June 2010 and payable in monthly installments of principal and interest through maturity in June 2012 secured by the FIT REN portfolio	171,000	
Mortgages payable due 2010, bearing interest of LIBOR plus 3%, payable in monthly installments of interest only until April 2009 and payable in monthly installments of principal and interest through maturity in April 2010, secured by the Fortress CCRC portfolio	105,756	
Variable rate tax-exempt bonds credit-enhanced by Fannie Mae, due 2032 secured by the Chambrel portfolio, payable interest only until maturity plus required deposits to sinking fund	100,841	
Capital and financing lease obligation payable through 2020; weighted average interest rate of 11.83% in 2005 (weighted average interest rate of 11.48%)	66,284	66,284
Mezzanine loan payable to Brookdale Senior Housing, LLC joint venture with respect to The Heritage at Gaines Ranch facility, payable to the extent of all available cash flow (as defined)	12,739	12,739
Serial and term revenue bonds maturing serially from 2003 through 2013; interest rate of 7.36% in 2004 (repaid January 2006)	2,555	2,865
Notes payable to former joint venture partners bearing interest rates at 9.0%.		9,420
<b>Total debt</b>	<b>754,301</b>	<b>371,037</b>
<b>Less current portion</b>	<b>132</b>	<b>3,888</b>
<b>Total long-term debt</b>	<b>\$ 754,169</b>	<b>\$ 367,149</b>



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

- (a) The notes can be extended to two one-year terms based on meeting certain covenants.
- (b) Includes first mortgage and mezzanine loan payable to an affiliate of FIG with a balance, including accrued long-term interest, of \$51,238 and \$14,458, respectively, at December 31, 2004 originally due December 31, 2005. The first mortgage loan was guaranteed by BLC and bore interest at LIBOR plus 2.70% payable interest only monthly and net cash flow (as defined). The mezzanine loan accrued interest at 19.5% payable at maturity.

In connection with the Provident transaction BLC

posted \$4,000 in an interest bearing account as collateral for one construction loan maturing March 2005. Upon completion of the refinancing the collateral was released.

- (c) Certain of our debt agreements require us to maintain financial ratios, including debt service coverage and occupancy ratios and are guaranteed by us.

The annual aggregate scheduled maturities of long-term debt obligations outstanding as of December 31, 2005 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2006	\$ 132
2007	71,233
2008	150,025
2009	17,851
2010	129,997
Thereafter	385,063
	<b>\$ 754,301</b>

Substantially all the property, plant and equipment has been pledged as collateral for the outstanding debt, capital lease and financing obligations.

#### **8. Derivative Financial Instruments**

We recorded \$37.3 million of interest rate swaps and \$97.3 million of forward-starting interest rate swaps when we consolidated the developmental facilities in accordance with FIN 46R on December 31, 2003. Upon consolidation, we recorded a cumulative effect of a change in accounting principle resulting in a loss of \$13.2 million, net of income taxes, which was the fair value of the swaps on the date of consolidation. Subsequent changes in the fair market of these derivative instruments are recorded in the statement of operations.

##### ***Interest Rate Swaps***

The interest rate swap agreement that converts \$37.3 million of our floating-rate construction debt to a fixed-rate basis of 5.19% through maturity on April 1, 2005. The market value of the fair value hedge at December 31, 2004 was a liability of \$.2 million, which is included in other current liabilities.

##### ***Forward Interest Rate Swaps***

We had four 10-year forward interest rate swaps to fix \$97.3 million of forward interest rate swaps at 7.03%-7.325% with a maturity date of August 2012 to March 2013. In May 2004, the Company extended the termination dates to June 2006. The terms of the forward interest rate swaps required the Company to pay a fixed-interest rate to the counterparties and to receive a variable rate from the counterparties. The fair value of the forward interest rate swaps at December 31, 2004 was a liability of \$17.9 million. Included in cash and investments-restricted at December 31, 2004 is a deposit of \$8.0 million to collateralize our swap obligations.

On March 30, 2005, we terminated the \$97.3 million forward interest rate swaps and incurred a termination payment of \$15.8 million, including accrued interest of \$1.7 million, which was funded in part by

F-28

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

a \$10.0 million unsecured loan bearing interest payable monthly at prime plus 1% and principal payable in quarterly installments of \$.5 million commencing July 1, 2005 and maturing March 31, 2007. The loan was repaid in November 2005 from initial public offering proceeds.

***Interest Rate Swaps***

In March 2005, we entered into interest rate swaps with a notional amount of \$182.0 million to hedge floating rate debt where we pay an average fixed rate of 4.64% and receive 30-day LIBOR from the counterparty. The interest rate swaps are comprised of a \$145.0 million notional amount for seven years and a \$37.0 million notional amount for three years. In connection with the swaps, we posted approximately \$2.3 million as cash collateral, which was released March 10, 2006, with the counterparty and are required to post additional cash collateral based on changes in the fair value of the swaps. The swaps are recorded as cash flow hedges.

On March 28, 2005, we entered into a seven-year \$70.0 million interest rate swap with Merrill Lynch Capital Services, Inc., to hedge Alterra's \$72.2 million floating rate debt, pursuant to which we pay a fixed rate of 4.70% and receive 30-day LIBOR. The interest rate swap is treated as a cash flow hedge.

In March 2005, in connection with the proposed acquisition of the Prudential Portfolio, we entered into a \$170.0 million five-year forward interest rate swap to hedge the anticipated floating-rate debt under which we paid 4.6375% and received 30-day LIBOR from the counterparty. In connection with the acquisition of eight facilities in June 2005 and one facility in July 2005, we obtained fixed-rate debt and terminated \$151.0 million and \$19.0 million of the forward interest rate swap and paid \$2.4 million and \$0.2 million, respectively. The termination of the swap is recorded as a component of other comprehensive loss and amortized as additional interest expense over the term of the debt.

In December 2004, in connection with the acquisition of the Fortress CCRC Portfolio, we entered into a \$120.0 million three-year forward interest rate swap to hedge floating-rate debt where we pay 3.615% and receive 30-day LIBOR from the counterparty. In connection with the acquisition, we obtained \$105.8 million of first mortgage debt. Accordingly, \$105.8 million of the interest rate swap is treated as a cash flow hedge with fair value adjustments recorded as a component of other comprehensive income in the combined balance sheet and \$12.2 million is marked to market and recorded as an adjustment to earnings.

In connection with the purchase of the Chambrel Portfolio (note 16) we assumed interest rate caps with an aggregate notional amount of \$100.8 million, a strike price of 6.0% and a maturity date of November/December 2007.

The fair value of the outstanding swaps are included in other current assets and other current liabilities with the corresponding fair value included as a separate component of stockholders' equity.

For the three months and year ended December 31, 2005, nine months ended September 30, 2005 and for the year ended December 31, 2004 an adjustment to interest expense was recorded for \$(0.1) million, \$3.9 million, \$4.0 million and \$3.2 million, respectively, the majority of which resulted from the change in the fair value of interest rate and forward starting interest rate swaps not previously designated as hedging instruments.

At December 31, 2005, we have interest rate swaps outstanding with an aggregate notional amount of \$370.0 million and a fair value of \$4.0 million.

***Interest Rate Caps***

We had interest rate caps with notional amounts of approximately \$62.3 million and approximately \$15.0 million and strike prices of 6.35% and 6.58% that expired at June 1, 2009 and December 1, 2004, respectively. The interest rate caps were assigned to Provident in October 2004. Pursuant to the terms of our

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

lease with Provident, the floating rate adjustment we are required to pay is limited to the rate under the assumed interest rate caps.

**9. Accrued Expenses**

Accrued expenses at December 31, comprise of the following:

	<b>2005</b>	<b>2004</b>
Accrued salaries and wages	\$ 14,350	\$ 13,521
Accrued interest	4,078	3,622
Accrued insurance reserves	12,877	15,795
Accrued real estate taxes	12,088	11,877
Accrued income taxes	314	2,173
Accrued vacation	6,169	5,406
Accrued professional fees	3,045	2,936
Accrued lease payable	7,202	6,614
Other	25,269	15,389
<b>Total</b>	<b>\$ 85,392</b>	<b>\$ 77,333</b>

**10. Income Taxes**

The (provision) benefit for income taxes is comprised of the following:

	<b>For the Period from October 1, 2005 to December 31, 2005</b>	<b>For the Period from January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended</b>		
			<b>2005</b>	<b>December 31, 2004</b>	<b>2003</b>
Federal:					
Current	\$	\$ 540	\$ 540	\$ (5,032)	\$
Deferred				(2,895)	340
		540	540	(7,927)	340
State:					
Current	(150)	(293)	(443)	(2,368)	(127)
Deferred				(335)	77
	(150)	(293)	(443)	(2,703)	(50)
<b>Total</b>	<b>\$ (150)</b>	<b>\$ 247</b>	<b>\$ 97</b>	<b>\$ (10,630)</b>	<b>\$ 290</b>

A reconciliation of the (provision) benefit for income taxes to the amount computed at the U.S. Federal statutory rate of 35% is as follows:

	<b>For the Period from October 1, 2005 to December 31, 2005</b>	<b>For the Period from January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended</b>		
			<b>2005</b>	<b>December 31, 2004</b>	<b>2003</b>
Tax (provision) benefit at U.S. Statutory Rate	\$ 8,507	15,079	\$ 23,586	3,721	1,241
Variable interest entities (VIE s)	(244)	(2,210)	(2,454)	(10,342)	
Valuation allowance	(8,728)	(10,299)	(19,027)	(3,491)	
State taxes, net of federal income tax	632	1,120	1,752	(1,444)	73
Other, net	(317)	(3,443)	(3,760)	926	(1,024)
<b>Total</b>	<b>\$ (150)</b>	<b>\$ 247</b>	<b>\$ 97</b>	<b>\$ (10,630)</b>	<b>\$ 290</b>

F-30

---



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

As discussed in note 2, we adopted FIN 46R as of December 31, 2003 and consolidated the VIEs for financial reporting purposes. For Federal and state income tax purposes, we were not historically the legal owner of the entities and were not entitled to receive tax benefits generated from the losses associated with these VIEs. The Company did obtain legal title to four of the facilities on March 1, 2005 and the remaining facility on December 30, 2005.

Significant components of our deferred tax assets and liabilities at December 31, are as follows:

	2005	2004
Deferred income tax assets:		
Operating loss carryforwards	\$ 50,104	\$ 34,106
Prepaid revenue	1,346	1,171
Accrued expenses	18,184	10,650
Property, plant and equipment		13,829
Fair value of swaps (a cumulative effect of a change in accounting principle in 2003, note 8)	2,288	6,833
Deferred gain on sale leaseback	18,231	41,186
Other	9,615	2,332
 Total gross deferred income tax asset	 99,768	 110,107
Valuation allowance	(47,511)	(89,282)
 Net deferred income tax assets	 52,257	 20,825
Deferred income tax liabilities:		
Property, plant and equipment	(86,090)	(12,352)
Investment in Brookdale Senior Housing, LLC	(5,353)	(5,402)
Other	(2,503)	(3,071)
 Total gross deferred income tax liability	 (93,946)	 (20,825)
 Net deferred income tax liability	 \$ (41,689)	 \$

As described in note 1, BSL was formed by the exchange of common shares or membership interests in entities controlled by FIG. In connection with the transaction the assets and liabilities of the Non-FIG Shareholders were recorded at their respective fair values for financial reporting purposes. The assets and liabilities were recorded at carryover basis for Federal income tax purposes. The difference between the basis recorded for financial reporting purposes and the basis recorded for Federal income tax purposes is reflected as a deferred tax liability. As a result of the transaction, we have determined that it is more likely than not that we will recognize certain deferred tax assets and have adjusted our valuation allowance to \$38.7 million at September 30, 2005. In accordance with SFAS No. 109, the reduction in the allowance was reflected in the fair value adjustments described in note 1. During the fourth quarter 2005, the deferred tax assets increased \$8.7 million and the valuation allowance was increased for the same amount. The valuation allowance is \$47.5 million at December 31, 2005.

As of December 31, 2005, BSL had operating net operating loss carryforwards of approximately \$128.5 million, which are available to offset future taxable income, if any, through 2025. The formation of BSL constituted an ownership change under Section 382 of the Internal Revenue Code, as amended. As a result, BSL's ability to utilize the net operating loss carryforward to offset future taxable income is subject to certain limitations and restrictions.

At December 31, 2004, BLC has net operating loss carryforwards for Federal and state income tax purposes of approximately \$13,611 and \$19,331, respectively, which are available to offset future taxable income, if any, through 2024. We have recorded a valuation allowance due to uncertainties regarding our ability to utilize these losses in the future.

F-31

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

As described in note 11, in 2004 we sold the stock of BLC to Provident who assumed BLC's income tax positions resulting in a non-taxable gain for income tax purposes. For financial reporting purposes we recorded a deferred tax asset of \$41.2 million from the gain. Included in the deferred gain on sale leaseback is a net deferred tax liability of \$51.7 million assumed by Provident comprised primarily of deferred tax liabilities related to the stock sale, net of operating loss carryforwards and related valuation allowance.

In connection with fresh start accounting, Alterra's assets and liabilities were recorded at their respective fair market values. Deferred tax assets and liabilities were recognized for the tax effects of the difference between the fair values and the tax bases of Alterra's assets and liabilities. In addition, deferred tax assets were recognized for the future use of net operating losses. The valuation allowance established to reduce deferred tax assets as of December 31, 2004 was \$28.4 million. The reduction in this valuation allowance relating to net deferred tax items existing at the Effective Date will increase additional paid in capital. At December 31, 2004, Alterra increased additional paid-in capital by \$4.8 million as a result of a reduction in valuation allowance related to net deferred tax assets not benefited under fresh-start accounting, but realized in the year ended December 31, 2004. During 2005, Alterra reduced additional paid-in capital by \$0.9 million due to a reversal of the valuation allowance, related to net deferred tax asset.

The reorganization of Alterra constituted an ownership change under section 382 of the Internal Revenue Code. The use of any of its net operating losses generated prior to the ownership change that are not reduced pursuant to the provisions discussed above will be subject to an overall annual limitation of approximately \$3.6 million. Further utilization of net operating losses can be achieved by increasing the net operating loss limitation (under section 382) for recognized built-in gains. During 2004, Alterra increased the section 382 limitation by \$63.3 million as a result of recognizing built-in gains.

Alterra has approximately \$71.3 million of net operating losses subject to the section 382 limitation and \$6.2 million of regular net operating loss carryforwards at December 31, 2004. Any unused net operating loss carryforwards will expire commencing in years 2021 through 2023.

**11. Facility Operating Leases**

We have entered into sale leaseback and lease agreements with certain real estate investment trusts (REITs). Under these agreements we either sell facilities to the REIT or enter into a long-term lease agreement for such facilities. The lease terms vary from 10 to 20 years and include renewal options ranging from 5 to 30 years. We are responsible for all operating costs, including repairs, property taxes and insurance. The substantial majority of our lease arrangements are structured as master leases. Under a master lease, we lease numerous facilities through an indivisible lease. We typically guarantee our performance and the lease payments under the master lease and are subject to net worth, minimum capital expenditure requirements per facility per annum and minimum lease coverage ratios. Failure to comply with these covenants could result in an event of default.

***Ventas Portfolio***

During the first quarter of 2004, the limited partnerships that owned 14 GC Facilities (1,994 units), in which GFB had general and limited partnership interests, sold the facilities to Ventas, Inc. ( Ventas ) and we entered into an operating lease agreement to lease the facilities from Ventas for an initial aggregate annual lease rate of \$10,598 (the Ventas Lease ). The Ventas Lease has an initial term of 15 years with our right to extend for up to two 10-year periods and is guaranteed by BLC. We also have the right to purchase the facilities in year 15 at the greater of the fair market value or a stated minimum purchase price.

On May 13, 2004, we amended the operating lease agreement with Ventas to include a 221-unit facility with an initial annual lease rate of \$3.5 million except that we do not have a purchase option. On October 19, 2004, the Ventas Lease was amended to provide for: (i) annual escalations of the greater of 2.0% (increased from 1.5%) or 75% of the CPI increase and, (ii) a purchase option in year 15 (from year 10) of the lease.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

In May 2005, the Ventas Lease was amended to provide for a security deposit of \$7.2 million (increased from \$1.2 million) which is in the form of letters of credit.

***Provident Portfolio***

On October 19, 2004, FBA sold the stock of BLC to Provident Senior Living Trust ( Provident ). On June 7, 2005, Ventas acquired Provident. Prior to the sale, BLC distributed all the assets and liabilities, except for the real estate of 21 owned facilities (4,474 units/beds) and related property debt, certain other mezzanine loans and the unsecured line of credit, to a new entity representing the continuing BLC entity. In connection with the stock sale, Provident assumed BLC's income tax positions.

In October and December 2004, Alterra sold 38 (1,732 units/beds) and nine facilities (613 units/beds), respectively, to Provident.

The aggregate sales price was \$982.8 million including transaction costs, assumed debt and other liabilities. Simultaneously with the closing, we entered into an operating lease agreements to lease back the facilities, resulting in the gain on the sale of \$130.8 million being deferred and amortized over the initial lease term. In addition, we recognized a gain of \$1.1 million on the assumption of the mezzanine loans. A summary of the deferred gain is as follows:

Sales price	\$ 982,798
Net carrying value	(856,339)
Transaction costs	(11,663)
Goodwill write-off	(35,689)
Net deferred tax liability assumed by Provident (note 10)	51,669
 Deferred gain	 \$ 130,776

Proceeds from the sale were distributed as follows:

Sales price	\$ 982,798
Assumption of debt and accrued interest	(461,248)
Assumption of mezzanine loans and unsecured line of credit	(114,202)
Transaction costs, net	(10,494)
Lease security deposit	(20,000)
Dividend to shareholders	(254,577)
 Net working capital retained	 \$ 122,277

BLC's operating lease has an initial term ending on December 31, 2019, with our right to extend for up to two 10-year periods and is guaranteed by BLC. The lease rate can be adjusted for changes in interest rates on variable rate mortgages assumed by the lessor and increases annually starting on January 1, 2006 by the lesser of 3% or four times the percentage increase in CPI.

Alterra's operating lease has an initial term ending on October 31, 2019 with our right to extend for two five-year periods and is guaranteed by Alterra. The lease increases annually by the lesser of 2.5% or four times the percentage increase in CPI.

In connection with the transaction, FBA made a \$20.0 million lease security deposit in an interest bearing account at the time of closing and Alterra has agreed to deposit 50% of excess cash flow until the security deposit is \$10.0 million. The lease deposits will be released upon achieving coverage ratios, as defined. We agreed to spend a minimum of \$400 and \$450 per unit per year on capital improvements on the Alterra facilities and the BLC facilities,

respectively, of which Provident will reduce BLC's security deposit by that same amount up to \$600 per unit or \$2.7 million per year.

**12. Commitments and Contingencies**

F-33

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

We have two operating lease agreements for 30,314 and 59,800 square feet of office space that extends through 2010 and 2009, respectively. The leases require the payment of base rent which escalates annually, plus operating expenses (as defined). We incurred rent expense of \$1.6 million, \$2.4 million and \$1.2 million for the years ended December 31, 2005, 2004 and 2003, respectively, under the office leases.

The aggregate amounts of all future minimum operating lease payments, including facilities and office leases, as of December 31, 2005, are as follows:

Year Ending December 31,	Capital/ Financing Leases	Operating Leases	Total
2006	\$ 7,944	\$ 162,129	\$ 170,073
2007	7,944	165,183	173,127
2008	7,944	167,543	175,487
2009	7,944	170,455	178,399
2010	7,944	173,702	181,646
Thereafter	59,947	1,669,504	1,729,451
Total minimum lease payments	99,667	2,508,516	2,608,183
Less amount representing interest (11.83%)	(33,383)		(33,383)
	\$ 66,284	\$ 2,508,516	\$ 2,574,800

We have employment agreements with certain officers of the Company that grant these employees the right to receive their base salary and continuation of certain benefits, for a defined period of time, in the event of certain terminations of the officers' employment, as described in those agreements.

**Litigation**

In connection with the sale of certain facilities to Ventas Realty Limited Partnership ( Ventas ) in 2004, two legal actions have been filed. The first action was filed on September 15, 2005 by current and former limited partners in 36 investing partnerships in the United States District Court for the Eastern District of New York captioned *David T. Atkins et. al. v. Apollo Real Estate Advisors, L.P., et al* (the Action ). On March 17, 2006, a third amended complaint was filed in the Action. The third amended complaint is brought on behalf of current and former limited partners in 14 investing partnerships. It names as defendants, among others, the Company, Brookdale Living Communities, Inc. ( BLCI ), a subsidiary of the Company, GFB-AS Investors, LLC ( GFB-AS ), a subsidiary of BLCI, the general partners of the 14 investing partnerships, which are alleged to be subsidiaries of GFB-AS, Fortress Investment Group LLC ( FIG ), an affiliate of our largest stockholder, and our Chief Financial Officer. The nine count third amended complaint alleges, among other things, (i) that the defendants converted for their own use the property of the limited partners of 11 partnerships, including through the failure to obtain consents the plaintiffs contend were required for the sale of facilities indirectly owned by those partnerships to Ventas; (ii) that the defendants fraudulently persuaded the limited partners of three partnerships to give up a valuable property right based upon incomplete, false and misleading statements in connection with certain consent solicitations; (iii) that that certain defendants, including GFB-AS, the general partners, and our Chief Financial Officer, but not including the Company, BLCI, or FIG, committed mail fraud in connection with the sale of facilities indirectly owned by the 14 partnerships at issue in the Action to Ventas; (iv) that certain defendants, including GFB-AS and our Chief Financial Officer, but not including the Company, BLCI, the general partners, or FIG, committed wire fraud in connection with certain communications with plaintiffs in the Action and another investor in a limited partnership; (v) that the defendants, with the exception of the Company, committed substantive violations of the Racketeer Influenced and Corrupt Organizations Act ( RICO ); (vi) that the

defendants conspired to violate RICO; (vii) that GFB-AS and the general partners violated the partnership agreements of the 14 investing partnerships; (viii) that GFB-AS, the general partners, and our Chief Financial Officer breached fiduciary duties to the plaintiffs; and (ix) that the defendants were unjustly enriched. The plaintiffs have asked for damages in excess of \$100.0 million on each of the counts described above, including treble damages for the RICO claims. We intend to file a motion to dismiss the claims, and to continue to vigorously defend this Action. A putative class action lawsuit was also filed on March 22, 2006 by certain limited partners in four of the same partnerships involved in the Action in the Court of Chancery for the State of Delaware captioned *Edith Zimmerman et al. v. GFB-AS Investors, LLC and Brookdale Living Communities*,

F-34

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

*Inc.* (the Second Action ). The putative class in the Second Action consists only of those limited partners in the four investing partnerships who are not plaintiffs in the Action. The Second Action names as defendants BLCI and GFB-AS. The complaint alleges a claim for breach of fiduciary duty arising out of the sale of facilities indirectly owned by the investing partnerships to Ventas and the subsequent lease of those facilities by Ventas to subsidiaries of BLCI. The plaintiffs seek, among other relief, an accounting, damages in an unspecified amount, and disgorgement of unspecified amounts by which the defendants were allegedly unjustly enriched. We also intend to vigorously defend this Second Action. Because these actions are in an early stage we cannot estimate the possible range of loss, if any.

In addition, we are involved in various lawsuits and are subject to various claims arising in the normal course of business. In the opinion of management, although the outcomes of these suits and claims are uncertain, in the aggregate, they should not have a material adverse effect on our business, financial condition and results of operations.

### **13. Insurance, Benefits and Employee Loan**

#### ***Insurance***

We obtain various insurance coverages from commercial carriers at stated amounts as defined in the applicable policy. Losses related to deductible amounts are accrued based on the Company's estimate of expected losses plus incurred but not reported claims. As of December 31, 2005 and 2004, we have accrued \$30.5 million and \$35.4 million, respectively, for our self-insured programs.

We have secured our self-insured retention risk under our workers' compensation and general liability and professional liability programs with cash and letters of credit aggregating \$17.1 million and \$6.6 million, and \$17.9 million and \$3.3 million as of December 31, 2005 and 2004, respectively.

#### ***Employee Benefit Plan***

We maintain 401(k) Retirement Savings Plans for all employees that meet minimum employment criteria. The plans provide that the participants may defer eligible compensation on a pre-tax basis subject to certain Internal Revenue Code maximum amounts. We make matching contributions in amounts equal to 25% of the employee's contribution to the plans. Employees are always 100% vested in their own contributions and vest in our contributions over five years. We made contributions to such plans in the amount of \$0.7 million for the three months ended December 31, 2005, \$0.3 million for the nine months ended September 30, 2005 and \$1.0 million, \$0.9 million and \$0.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. Such amounts are included in facility operating and general and administrative expense in the accompanying consolidated statements of operations.

#### ***Employee Loan***

Pursuant to the terms of his employment agreement, BLC loaned approximately \$2.0 million to our Chief Executive Officer. In exchange, BLC received a ten-year, secured, non-recourse promissory note, which note bears interest at a rate of 6.09% per annum, of which 2.0% is payable in cash and of which the remainder accrues and is due at maturity on October 2, 2010. The note is secured by a portion of our Chief Executive Officer's stock.

### **14. Segment Information**

Pursuant to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we have seven reportable segments which we determined based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. In addition, the management approach focuses on financial information that an enterprise's decision makers use to make decisions about the enterprise's operating matters. We continue to evaluate the type of financial information necessary for the decision makers as we implement our growth strategies. Prior to September 30, 2005 (the date of the formation transactions) and presently, each of Brookdale Living, which includes BLC, the Fortress



**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

CCRC Portfolio and the Prudential Portfolio, and Alterra, had and has distinct chief operating decision makers, or CODMS. Our facilities are considered separate operating segments because they each engage in business activities from which they earn revenues and incur expenses, their operating results are regularly reviewed by the CODMS to make decisions about resources to be allocated to the segment and assess its performance, and discrete financial information is available.

SFAS No. 131 permits aggregation of operating segments that share all common operating characteristics (similar products and services, similar methods used to deliver or provide their products and services, and similar type and class of customer for their products and services) and similar economic characteristics (revenue recognition and gross margin). We believe that each of our facilities provides similar services, delivers these services in a similar manner, and has a common type and class of customer. In addition, all of our facilities recognize and report revenue in a similar manner. However, our individual facility gross margins vary significantly. Therefore, we have aggregated our segments based upon the lowest common economic characteristic of each of our facilities: gross margin. The CODMS allocate resources in large part based on margin and analyze each of the facilities as having either (1) less than 20% operating margins, (2) more than 20% operating margins but less than 40% operating margins, or (3) greater than 40% operating margins. The CODMS believe that the margin is the primary, most significant and most useful indicator of the necessary allocation of resources to each individual facility because it is the best indicator of a facility's operating performance and resource requirements. Accordingly, our operating segments are aggregated into six reportable segments based on comparable operating margins within each of Brookdale Living and Alterra. We define our operating margin for each group of facilities as that group's operating income divided by its revenue. Operating income represents revenue less operating expenses (excluding depreciation and amortization).

F-36

---

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

We also present a seventh reportable segment for management services because the economic and operating characteristics of these services are different from our facilities aggregated above.

*Brookdale Living.* Our Brookdale Living group of facilities operates independent living facilities and CCRCs that provide a continuum of services, including independent living, assisted living, Alzheimer's care, dementia care and skilled nursing care. Our facilities include rental facilities and three entrance fee facilities. We also provide various ancillary services to our residents, including extensive wellness programs, personal care and therapy services for all levels of care.

*Alterra.* Our Alterra group of facilities operates primarily assisted living facilities that provide specialized assisted living care to residents in a comfortable residential atmosphere. Most of our facilities provide specialized care, including Alzheimer's and other dementia programs. These facilities are designed to provide care in a home-like setting, as opposed to a more institutional setting.

*Management Services.* Our management services segment includes facilities owned by others and operated by us pursuant to management agreements. Under our management agreements for these facilities, we receive management fees as well as reimbursed expense revenues, which represent the reimbursement of certain expenses we incur on behalf of the owners.

The accounting policies of our reporting 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.

	<b>For the Period October 1,  2005 to December 31, 2005</b>	<b>For the Period January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended</b>		
			<b>2005</b>	<b>December 31, 2004</b>	<b>2003</b>
Revenue(3):					
Brookdale Living					
Less than 20% operating margin	\$ 13,685	\$ 29,903	\$ 43,588	\$ 17,475	\$ 6,719
20% - 40% operating margin	30,299	102,269	132,568	86,290	67,879
Greater than 40% operating margin	60,251	129,228	189,479	159,844	109,836
Total Brookdale Living	104,235	261,400	365,635	263,609	184,434
Alterra					
Less than 20% operating margin	7,904	38,773	46,677	52,267	5,744
20% - 40% operating margin	38,045	153,973	192,018	179,857	15,814
Greater than 40% operating margin	61,676	120,709	182,385	161,594	11,224
Total Alterra	107,625	313,455	421,080	393,718	32,782

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

Management Services	1,187	2,675	3,862	3,545	5,368
	\$ 213,047	\$ 577,530	\$ 790,577	\$ 660,872	\$ 222,584
Segment Operating Income(1):					
Brookdale Living					
Less than 20% operating margin	1,859	3,727	5,586	2,250	338
20% - 40% operating margin	9,739	32,491	42,230	26,608	20,652
Greater than 40% operating margin	30,653	63,805	94,458	76,107	53,015
Total Brookdale Living	42,251	100,023	142,274	104,965	74,005
<i>Average Margin</i>	40.5%	38.3%	38.9%	39.8%	40.1%
Alterra					
Less than 20% operating margin	685	3,774	4,459	5,674	292
20% - 40% operating margin	12,071	49,783	61,854	57,791	4,801
Greater than 40% operating margin	29,748	54,493	84,241	73,728	4,999
Total Alterra	42,504	108,050	150,554	137,193	10,092
<i>Average Margin</i>	39.5%	34.5%	35.8%	34.8%	30.8%
Management Services	831	1,873	2,704	2,482	3,758
	\$ 85,586	\$ 209,946	\$ 295,532	\$ 244,640	\$ 87,855

F-37

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

	<b>For the Period October 1,  2005 to December 31, 2005</b>	<b>For the Period January 1, 2005 to September 30, 2005</b>	<b>For the Years Ended</b>		
			<b>2005</b>	<b>December 31, 2004</b>	<b>2003</b>
General and administrative (including non-cash stock compensation expense)(2)	27,334	53,204	80,538	42,577	14,387
Facility lease expense	48,487	140,852	189,339	99,997	30,744
Depreciation and amortization	19,022	30,861	49,883	52,307	22,480
Operating income (loss)	\$ (9,257)	\$ (14,971)	\$ (24,228)	\$ 49,759	\$ 20,244
 Total Assets:					
Brookdale Living	\$ 1,256,833	\$ 1,089,410(4)	\$ 1,256,833	\$ 467,320	\$ 1,147,469
Alterra	440,978	382,525(4)	440,978	279,305	509,113
Management Services		(4)			
	\$ 1,697,811	\$ 1,471,935(4)	\$ 1,697,811	\$ 746,625	\$ 1,656,582

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

(2) Net of general and administrative costs allocated to management services reporting

segment.

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

(4) Unaudited.

#### **15. Employee Restricted Stock Plans and Omnibus Stock Incentive Plan**

On August 5, 2005, BLC and Alterra adopted employee restricted stock plans to attract, motivate, and retain key employees. The plans provide for the grant of shares of common stock to those participants selected by the board of directors. Upon adoption of the plans, restricted shares of BLC and Alterra were granted to employees. At September 30, 2005, as a result of the formation transactions described in Note 1, these restricted shares were converted into a total of 2.6 million shares of restricted stock in BSL at a value of \$19 per share. Pursuant to the plans, 25% to 50% of each individual's award vested upon completion of the initial public offering on November 22, 2005. The remaining awards vest over a period of three to five years.

On October 14, 2005, we adopted a new equity incentive plan for our employees, the Brookdale Senior Living Omnibus Stock Incentive Plan, which was approved by our stockholders on October 14, 2005, to strengthen the commitment of our employees, motivate them to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons who are essential to the success of our business and whose efforts will result in our long-term growth and profitability. The plan provides for the issuance of stock options, stock appreciation rights, restricted shares, deferred shares, performance shares, unrestricted shares and other stock-based awards. While we intend to issue stock in the future to key employees as a recruiting and retention tool, we have not established specific parameters regarding future grants of restricted stock.

A total of 2,000,000 shares of our common stock has been reserved for issuance under the plan; provided, however, that commencing on the first day of our fiscal year beginning in calendar year 2006, the number of shares reserved and available for issuance will be increased by an amount equal to the lesser of (1) 400,000 shares and (2) 2% of the number of outstanding shares of our common stock on the last day of the immediately preceding fiscal year. When Section 162(m) of the Internal Revenue Code becomes applicable, the maximum aggregate number of shares that will be subject to stock options or stock appreciation rights that may be granted to any individual during any fiscal year will be 400,000, and the maximum aggregate number of shares that will be subject to awards of restricted stock, deferred shares, unrestricted shares or other stock-based awards that may be granted to any individual during any fiscal year will be 400,000.

The plan will initially be administered by our board of directors, although it may be administered by either our board of directors or any committee of our board of directors, including a committee that complies with the applicable requirements of Section 162(m) of the Internal Revenue Code, Section 16 of the Exchange Act and any other applicable legal or stock exchange listing requirements.

Except as otherwise provided by the plan administrator, on the first business day after our annual meeting of stockholders and each such annual meeting thereafter during the term of the plan, each of our independent

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

directors who is then serving will automatically be granted under the plan a number of unrestricted shares of our common stock having a fair market value of \$15,000 as of the date of grant; however, those of our independent directors who were granted restricted common stock upon the consummation of our initial public offering will not be eligible to receive these automatic annual grants.

The terms of the plan provide that the board may amend, alter or discontinue the plan, but no such action may impair the rights of any participant with respect to outstanding awards without the participant's consent. Unless the board determines otherwise, stockholder approval of any such action will be obtained if required to comply with applicable law. The plan will terminate on October 13, 2015.

As a result of the formation transactions described in Note 1, the employee restricted stock plans described above were merged into the Omnibus Stock Incentive Plan.

Under our Omnibus Stock Incentive Plan, additional grants of 0.02 million and 0.5 million restricted shares were granted in 2005 at \$28.52 and \$19.00 per share for a total value of \$0.6 million and \$10.1 million, respectively.

Compensation expense of \$11.1 million, \$11.5 million and \$22.6 million was recorded using graded vesting for the nine months ended September 30, 2005, three months and year ended December 31, 2005, respectively, in connection with the vested shares and the balance of the expense will be recorded over the remaining vested period, net of forfeitures estimated at 5% of the shares granted.

**16. Acquisitions**

On December 30, 2005, we completed the acquisition of all of the shares of capital stock of CMCP Properties Inc. from Capstead Mortgage Corporation, or Capstead. The purchase was structured as a stock transaction, at a total cost of \$181 million, consisting of a \$57.5 million cash payment and assumption of \$119.8 million of debt. At closing we obtained a \$30.0 million first mortgage loan against one of the facilities bearing interest at 6.085% payable interest only until February, 2011 and principal and interest thereafter until maturity in February, 2013 and we repaid an existing \$19.0 million loan against the facility. In connection with the refinancing we incurred a loss on extinguishment of \$2.5 million. The portfolio is comprised of six independent and assisted living facilities located in Florida, Georgia, Virginia, Ohio and Texas (the CMCP Properties). Subsidiaries of BLC have leased and operated the facilities since May 1, 2002.

On December 22, 2005, we acquired four assisted living facilities (which included 187 units/beds) from Merrill Gardens for an aggregate purchase price of \$16.3 million. The acquisition was financed by \$15.2 million of first mortgage financing bearing interest at a variable rate of LIBOR plus 1.70%.

On November 30, 2005, we completed our acquisition of six facilities (which included 237 units/beds from Omega Healthcare Investors, Inc (Omega)) pursuant to our exercise of a purchase option, for an aggregate purchase price of \$20.4 million. The Merrill Gardens and Omega acquisitions were financed by \$8.8 million of first mortgage financing bearing interest at LIBOR plus 1.70% and \$6.7 million of the net proceeds of our initial public offering.

The above acquisitions were accounted for using the purchase method of accounting and the purchase price was allocated to the assets and liabilities based on their estimated fair values.

The following unaudited pro forma condensed consolidated financial information sets forth the historical financial information for the period October 1, 2005 to December 31, 2005 derived from the consolidated financial statements of Brookdale Senior Living Inc., as adjusted to give effect to:

acquisition of the capital stock of CMCP Properties, Inc. and the Merrill Gardens portfolio as if these transactions closed on October 1, 2005.

The following unaudited pro forma condensed and consolidated financial information sets forth the historical financial information for the nine months ended September 30, 2005 and for the years ended December 31, 2005 and 2004 derived from the consolidated and combined historical financial statements, as adjusted to give effect to:

pro forma adjustments to give effect to the Provident sale-leaseback and Ventas operating lease on the combined statement of operations as if these transactions closed on January 1, 2004;

Edgar Filing: Brookdale Senior Living Inc. - Form 10-K/A

pro forma adjustments to give effect to the refinancing of five facilities, tax effect of the purchase of four of these facilities and termination of forward interest rate swaps as if these transactions closed on January 1, 2005 and 2004;

pro forma adjustments to give effect to the Fortress CCRC Portfolio and the Prudential Portfolio acquisitions on the combined statements of operations as if these transactions closed on January 1, 2004;

pro forma adjustment to give effect to the September 30, 2005 step-up in basis of non-controlling ownership (ownership interests not controlled or owned by affiliates of Fortress Investment Group LLC, Minority Shareholders ) due to the exchanges of Brookdale Facility Group minority ownership for Company ownership as if the transaction was completed on January 1, 2004;

pro forma adjustment to give effect to the compensation expense in connection with the grants under the restricted stock plan;

incremental general and administrative expenses related to operating as a public company;

our initial public offering, repayment of indebtedness and other use of proceeds; and

acquisition of the Chambrel portfolio and Merrill Gardens portfolio subsequent to our initial public offering.

The unaudited pro forma condensed consolidated and combined financial information is presented for informational purposes only, and we do not expect that this information will reflect our future results of operations. The unaudited pro forma adjustments are based on available information and upon assumptions that we believe are reasonable. The unaudited pro forma financial information assumes that the transactions and our initial offering were completed as of January 1, 2005 and 2004 for purposes of the unaudited pro forma condensed combined financial information.

	<b>For the Period From October 1, 2005 to December 31, 2005</b>	<b>For the nine months ended September 30, 2005</b>	<b>For the years ended December 31, 2005      2004</b>	
Revenues	\$ 214,259	\$ 623,722	\$ 837,981	\$ 795,360
Loss from operations	(8,629)	(44,249)	(52,878)	(37,391)
Loss before income taxes	(24,438)	(81,948)	(106,386)	(89,553)
Loss from continuing operations	(25,588)	(82,881)	(108,469)	(93,474)
Weighted average basic and diluted loss per share	\$ (0.43)			
Weighted average shares used in computing basic and diluted loss per share	59,710			





**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
**(In thousands)**

**17. Subsequent Events**

On December 21, 2005, we signed an agreement to acquire Southern Assisted Living Inc. (SALI), a company based in North Carolina that operates a portfolio of 41 senior living facilities, all of which are leased, for \$82.9 million.

On January 12, 2006, we signed a definitive agreement to purchase 18 owned and leased senior living facilities from American Senior Living L.P. for \$124.0 million. The portfolio is located in Alabama, California, Delaware, Florida, Georgia, Louisiana, Ohio, Tennessee, Virginia and Washington and is divided into seven owned and 11 leased facilities. The transaction is subject to customary closing conditions and multiple closings.

On February 7, 2006, we signed a definitive agreement to acquire six properties from AEW Capital Management for \$209.5 million. The portfolio located in California, Ohio and Washington is comprised of six independent living, assisted living and CCRC facilities. The transaction is subject to customary closing conditions and possible multiple closings.

On February 10, 2006, we entered into a \$330.0 million credit agreement, consisting of a \$250.0 million term loan available for acquisitions and an \$80.0 million revolving loan with a \$60.0 million sublimit for letters of credit. Concurrent with the new credit agreement we terminated our existing line of credit. The credit agreement bears interest at either prime plus 0.5% or LIBOR plus 1.50% and matures on February 10, 2007, subject to extension at our option for six months. In connection with the revolving loan we paid a commitment fee of 0.5% and a non-use fee on the term loan of 0.125% of the average daily amount of undrawn funds so long as we draw less than \$150.0 million, 0.25% if we draw \$150.0 million or more.

In February 2006, we entered into five-year forward interest rate swaps in the aggregate notional amounts of \$283.3 million whereby we pay an average fixed rate of 4.97% and receive 30-day LIBOR from the counterparty.

On February 28, 2006, we terminated the management agreement for four facilities due to a sale. Management fees for these four facilities was \$0.8 million for the year ended December 31, 2005, and we received a termination fee of \$0.2 million.

On February 28, 2006, we acquired two facilities in Orlando, Florida from Orlando Madison Ivy, LLC. for an aggregate purchase price of \$13.0 million. In connection with the acquisition, we obtained an \$8.8 million first mortgage bearing interest at a variable rate of LIBOR plus 1.70%.

**BROOKDALE SENIOR LIVING INC.**  
**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**  
(In thousands)

On March 13, 2006, our Board of Directors declared a quarterly cash dividend of our common stock of \$0.35 per share, or an aggregate of \$23.2 million for the quarter ended March 31, 2006. The \$0.35 per share dividend is payable on April 14, 2006 to holders of record of our common stock on March 31, 2006.

On March 17, 2006, under our Omnibus Stock Incentive Plan, an additional grant of 0.04 million restricted shares were granted at \$32.88 per share for a total value of \$1.5 million.

(Unaudited)

On March 28, 2006, we purchased 17 assisted living facilities from The Wellington Group LLC for \$95.0 million. The acquisition was funded in part with \$52.6 million of first mortgage debt bearing interest at LIBOR plus 1.70%. The portfolio is located in Alabama, California, Florida, Georgia, Mississippi, and Tennessee and is divided into 14 owned and four leased properties.

**18. Quarterly Results of Operations (Unaudited)**

The following is a summary of quarterly results of operations for the fiscal quarters (in thousands, except per share amounts):

	<b>March 31, 2005</b>	<b>For the Quarters Ended</b>		
		<b>June 30, 2005</b>	<b>September 30, 2005</b>	<b>December 31, 2005</b>
Revenues	\$ 174,983	\$ 193,188	\$ 209,359	\$ 213,047
Income (loss) from operations	878	1,702	(17,551)	(9,257)
Loss before income taxes	(4,129)	(8,980)	(30,115)	(24,306)
Loss before discontinued operations	(4,295)	(8,999)	(29,683)	(24,456)
Net loss	(4,365)	(8,811)	(29,446)	(24,456)
Weighted average basic and diluted earnings (loss) per share				\$ (0.41)
Weighted average shares used in computing basic and diluted loss per share				59,710

	<b>March 31, 2004</b>	<b>For the Quarters Ended</b>		
		<b>June 30, 2004</b>	<b>September 30, 2004</b>	<b>December 31, 2004</b>
Revenues	\$ 155,633	\$ 163,220	\$ 166,161	\$ 175,858
Income from operations	13,162	16,136	15,611	4,850
Income (loss) before income taxes	(8,960)	6,630	(5,675)	(2,051)
Income (loss) before discontinued operations	(8,247)	2,336	(5,095)	(10,161)
Net income (loss)	(9,067)	1,924	(5,209)	(9,537)

Note: The earnings per share disclosure pertain only to the operations of Brookdale Senior Living Inc. from October 1, 2005 through December 31, 2005.

**SCHEDULE II**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**December 31, 2005**  
(In thousands)

Description	Balance at Beginning of Period	Additions			Deductions	Balance at End of Period
		Charged to costs and expenses	Charged To other Accounts	Combination of Alterra		
<b>Allowance for Doubtful Accounts:</b>						
Year ended December 31, 2003	\$ 300	\$ 560	\$	\$ 7,374	\$ 588	\$ 7,646
Year ended December 31, 2004	\$ 7,646	\$ 831	\$	\$	\$ 5,614	\$ 2,863
Year ended December 31, 2005	\$ 2,863	\$ 1,571	\$	\$	\$ 1,413	\$ 3,021
<b>Deferred Tax Valuation Account:</b>						
Year ended December 31, 2003	\$ 13,573	\$	\$	\$ 32,703	\$	\$ 46,276
Year ended December 31, 2004	\$ 46,276	\$	\$ 43,006(1)	\$	\$	\$ 89,282
Year ended December 31, 2005	\$ 89,282	\$	\$	\$	\$ 41,771(2)	\$ 47,511

(1) Change in valuation allowance

(2) Change in valuation allowance due to minority step-up in basis

See accompanying report of independent registered public accounting firm.

F-42

---

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
23.1	Consent of Ernst & Young.
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.
32.1	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.

---

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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 J. Schulte

Name: Mark J. Schulte  
Title: Chief Executive Officer  
Date: June 13, 2006

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Wesley R. Edens	Chairman of the Board	June 13, 2006
Wesley R. Edens		
/s/ Mark J. Schulte	Chief Executive Officer	June 13, 2006
Mark J. Schulte		
/s/ R. Stanley Young	Executive Vice President,	June 13, 2006
R. Stanley Young	Chief Financial Officer and Principal Accounting Officer	
/s/ William B. Doniger	Director	June 13, 2006
William B. Doniger		
/s/ Bradley E. Cooper	Director	June 13, 2006
Bradley E. Cooper		
/s/ Jackie M. Clegg	Director	June 13, 2006
Jackie M. Clegg		
/s/ Jeffrey G. Edwards	Director	June 13, 2006
Jeffrey G. Edwards		
/s/ Jeffrey R. Leeds	Director	June 13, 2006
Jeffrey R. Leeds		

/s/ Samuel Waxman

Director

June 13, 2006

Samuel Waxman