

Brookdale Senior Living Inc.
Form 10-Q
May 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 001-32641

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ T

Accelerated
filer ☐ £

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

Smaller reporting
company ☐ £

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

As of May 4, 2011, 120,834,892 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

TABLE OF CONTENTS
BROOKDALE SENIOR LIVING INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

| | PAGE |
|-------------------|---|
| <u>PART I.</u> | <u>FINANCIAL INFORMATION</u> |
| <u>Item 1.</u> | <u>Financial Statements</u> |
| | <u>Condensed Consolidated Balance Sheets -</u> <u>As of March 31, 2011 (Unaudited) and December 31, 2010</u> |
| | 4 |
| | <u>Condensed Consolidated Statements of Operations -</u> <u>Three months ended March 31, 2011 and 2010 (Unaudited)</u> |
| | 5 |
| | <u>Condensed Consolidated Statement of Equity -</u> <u>Three months ended March 31, 2011 (Unaudited)</u> |
| | 6 |
| | <u>Condensed Consolidated Statements of Cash Flows -</u> <u>Three months ended March 31, 2011 and 2010 (Unaudited)</u> |
| | 7 |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> |
| | 8 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and</u> <u>Results of Operations</u> |
| | 20 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| | 37 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> |
| | 37 |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> |
| <u>Item 1.</u> | <u>Legal Proceedings</u> |
| | 37 |
| <u>Item 1A.</u> | <u>Risk Factors</u> |
| | 37 |
| <u>Item 6.</u> | <u>Exhibits</u> |
| | 37 |
| <u>Signatures</u> | 38 |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|--|----------------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 36,732 | \$ 81,827 |
| Cash and escrow deposits — restricted | 47,502 | 81,558 |
| Accounts receivable, net | 87,841 | 88,033 |
| Deferred tax asset | 15,526 | 15,529 |
| Prepaid expenses and other current assets, net | 66,652 | 61,162 |
| Total current assets | 254,253 | 328,109 |
| Property, plant and equipment and leasehold intangibles, net | 3,716,650 | 3,736,842 |
| Cash and escrow deposits — restricted | 44,917 | 65,316 |
| Marketable securities — restricted | 26,020 | — |
| Investment in unconsolidated ventures | 20,485 | 20,196 |
| Goodwill | 109,553 | 109,693 |
| Other intangible assets, net | 163,614 | 171,341 |
| Other assets, net | 95,776 | 98,973 |
| Total assets | \$ 4,431,268 | \$ 4,530,470 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | \$ 171,400 | \$ 71,676 |
| Trade accounts payable | 37,879 | 36,302 |
| Accrued expenses | 177,473 | 171,537 |
| Refundable entrance fees and deferred revenue | 331,980 | 318,814 |
| Tenant security deposits | 8,001 | 8,029 |
| Total current liabilities | 726,733 | 606,358 |
| Long-term debt, less current portion | 2,292,887 | 2,498,620 |
| Deferred entrance fee revenue | 69,142 | 69,075 |
| Deferred liabilities | 153,832 | 153,199 |
| Deferred tax liability | 102,297 | 113,956 |
| Other liabilities | 33,618 | 29,265 |
| Total liabilities | 3,378,509 | 3,470,473 |
| Stockholders' Equity | | |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized at March 31, 2011 and December 31, 2010; no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value, 200,000,000 shares authorized at March 31, 2011 and December 31, 2010; 125,670,330 and 125,527,846 shares issued and 124,459,029 and 124,316,545 shares outstanding (including 3,624,396 and 3,539,751 unvested restricted | 1,244 | 1,243 |

shares), respectively

| | | |
|---|-------------|-------------|
| Additional paid-in-capital | 1,908,926 | 1,904,144 |
| Treasury stock, at cost; 1,211,301 shares at March 31, 2011 and December 31, 2010 | (29,187) | (29,187) |
| Accumulated deficit | (828,181) | (815,876) |
| Accumulated other comprehensive loss | (43) | (327) |
| Total stockholders' equity | 1,052,759 | 1,059,997 |
| Total liabilities and stockholders' equity | \$4,431,268 | \$4,530,470 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2011 | 2010 |
| Revenue | | |
| Resident fees | \$568,035 | \$543,029 |
| Management fees | 1,405 | 1,395 |
| Total revenue | 569,440 | 544,424 |
| Expense | | |
| Facility operating expense (excluding depreciation and amortization of \$51,065 and \$52,033, respectively) | 370,954 | 355,324 |
| General and administrative expense (including non-cash stock-based compensation expense of \$4,540 and \$4,871, respectively) | 33,543 | 31,952 |
| Facility lease expense | 66,315 | 68,249 |
| Depreciation and amortization | 71,782 | 73,061 |
| Asset impairment | 14,846 | |
| Total operating expense | 557,440 | 528,586 |
| Income from operations | 12,000 | 15,838 |
| Interest income | 625 | 627 |
| Interest expense: | | |
| Debt | (31,561) | (33,280) |
| Amortization of deferred financing costs and debt discount | (2,704) | (2,596) |
| Change in fair value of derivatives and amortization | (8) | (2,640) |
| Loss on extinguishment of debt, net | (2,894) | (19) |
| Equity in earnings of unconsolidated ventures | 266 | 397 |
| Other non-operating income | 817 | |
| Loss before income taxes | (23,459) | (21,673) |
| Benefit for income taxes | 11,154 | 7,378 |
| Net loss | \$(12,305) | \$(14,295) |
| Basic and diluted net loss per share | \$(0.10) | \$(0.12) |
| Weighted average shares used in computing basic and diluted net loss per share | 120,792 | 119,315 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

Common Stock

| | Shares | Amount | Additional Paid-In- Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total |
|---|----------------|-----------------|-----------------------------------|---------------------|------------------------|---|---------------------|
| B a l a n c e s a t | | | | | | | |
| January 1, 2011 | 124,317 | \$ 1,243 | \$ 1,904,144 | \$ (29,187) | \$ (815,876) | \$ (327) | \$ 1,059,997 |
| Compensation expense related to restricted stock and restricted stock unit grants | | | 4,540 | | | | 4,540 |
| Net loss | | | | | (12,305) | | (12,305) |
| Issuance of common stock under Associate Stock Purchase Plan | 9 | | 243 | | | | 243 |
| Restricted stock, net | 133 | 1 | (1) | | | | |
| Unrealized gain on marketable securities - restricted | | | | | | 257 | 257 |
| Reclassification of net gains on derivatives into earnings | | | | | | 114 | 114 |
| Amortization of payments from settlement of forward interest rate swaps | | | | | | 94 | 94 |
| Other | | | | | | (181) | (181) |
| Balances at March 31, 2011 | 124,459 | \$ 1,244 | \$ 1,908,926 | \$ (29,187) | \$ (828,181) | \$ (43) | \$ 1,052,759 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2011 | 2010 |
| Cash Flows from Operating Activities | | |
| Net loss | \$(12,305) | \$(14,295) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Loss on extinguishment of debt | 2,894 | 19 |
| Depreciation and amortization | 74,486 | 75,657 |
| Asset impairment | 14,846 | |
| Equity in earnings of unconsolidated ventures | (266) | (397) |
| Amortization of deferred gain | (1,093) | (1,086) |
| Amortization of entrance fees | (5,762) | (5,739) |
| Proceeds from deferred entrance fee revenue | 6,361 | 9,550 |
| Deferred income tax benefit | (11,841) | (8,200) |
| Change in deferred lease liability | 1,726 | 3,136 |
| Change in fair value of derivatives and amortization | 8 | 2,640 |
| (Gain) loss on sale of assets | (1,315) | 144 |
| Non-cash stock-based compensation | 4,540 | 4,871 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (105) | (7,073) |
| Prepaid expenses and other assets, net | (7,104) | (4,429) |
| Accounts payable and accrued expenses | 8,453 | (11,825) |
| Tenant refundable fees and security deposits | 310 | (1,298) |
| Deferred revenue | 11,269 | 8,365 |
| Other | 7,564 | (2,911) |
| Net cash provided by operating activities | 92,666 | 47,129 |
| Cash Flows from Investing Activities | | |
| Decrease in lease security deposits and lease acquisition deposits, net | 941 | 801 |
| Decrease (increase) in cash and escrow deposits — restricted | 54,455 | (30,556) |
| Purchase of marketable securities — restricted | (26,409) | |
| Sale of marketable securities — restricted | 809 | |
| Additions to property, plant and equipment and leasehold intangibles, net of related payables | (28,589) | (23,102) |
| Acquisition of assets, net of related payables and cash received | (51,330) | |
| Payment on notes receivable, net | 403 | 512 |
| Investment in unconsolidated ventures | | (848) |
| Distributions received from unconsolidated ventures | 60 | 47 |
| Proceeds from sale of assets | 23,147 | 1,487 |
| Other | (164) | (316) |
| Net cash used in investing activities | (26,677) | (51,975) |
| Cash Flows from Financing Activities | | |
| Proceeds from debt | 28,000 | 49,108 |
| Repayment of debt and capital lease obligations | (134,550) | (58,923) |

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

| | | |
|---|------------|-----------|
| Proceeds from line of credit | 40,000 | 45,000 |
| Repayment of line of credit | (40,000) | (30,000) |
| Payment of financing costs, net of related payables | (2,575) | (2,776) |
| Other | (184) | (181) |
| Refundable entrance fees: | | |
| Proceeds from refundable entrance fees | 6,080 | 8,442 |
| Refunds of entrance fees | (4,930) | (5,762) |
| Cash portion of loss on extinguishment of debt | (2,861) | (179) |
| Recouping and payment of swap termination | (64) | (640) |
| Net cash (used in) provided by financing activities | (111,084) | 4,089 |
| Net decrease in cash and cash equivalents | (45,095) | (757) |
| Cash and cash equivalents at beginning of period | 81,827 | 66,370 |
| Cash and cash equivalents at end of period | \$36,732 | \$65,613 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of March 31, 2011, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management’s discussion and analysis of financial condition and results of operations, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission.

Revenue Recognition

Resident Fees

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

Entrance Fees

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

contracts provide for refundable entrance fees that are refundable only upon resale of a comparable unit. Such fees are deemed "contingently refundable." Refundable fees related to such contracts are recorded as deferred revenue. The deferred revenue is amortized over the life of the community into rental income and was approximately \$52.5 million and \$52.9 million at March 31, 2011 and December 31, 2010, respectively. In certain instances the Company replaces contingently refundable entrance fee units with non-refundable entrance fee units. In such cases the Company estimates the portion of the "contingently refundable" entrance fee which will be refunded with proceeds from non-refundable entrance fees receipts and includes such amount in deferred revenue to

Table of Contents

be amortized over the life of the community. All remaining contingently refundable fees not recorded as deferred revenue and amortized are classified as a liability and included in refundable entrance fees and deferred revenue and not amortized. All refundable amounts due to residents at any time in the future, including those recorded as deferred revenue, are classified as current liabilities. The amount of entrance fees reflected as long-term liabilities on the condensed consolidated balance sheet represents only the non-refundable entrance fees to be amortized to rental revenue.

Community Fees

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

Management Fees

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

Fair Value of Financial Instruments

Derivative financial instruments and marketable securities - restricted are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value of approximately \$2.5 billion and \$2.6 billion as of March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011 and December 31, 2010, the estimated fair value of debt was approximately \$2.4 billion and \$2.5 billion, respectively.

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

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

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

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

The Company's marketable securities - restricted are valued based primarily on quoted market prices and are classified within Level 1 of the valuation hierarchy.

The Company's derivative positions are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy.

The Company's fair value of debt disclosure is determined based primarily on market interest rate assumptions of similar debt applied to future cash flows under the debt agreements and is classified within Level 2 of the valuation hierarchy.

The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of derivatives and amortization in the current period statement of operations (Note 13).

Table of Contents

Self-Insurance Liability Accruals

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

Treasury Stock

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

Marketable Securities - Restricted

Marketable securities - restricted include amounts required to be held in reserve related to the Company's entrance fee CCRCs pursuant to various state insurance regulations. Marketable securities - restricted consist of mutual funds holding equities and bonds. The Company classifies its marketable securities - restricted as available-for-sale. Accordingly, these investments are carried at their estimated fair value with the unrealized gain and losses, net of tax, reported in other comprehensive income. Realized gains and losses from the available-for-sale securities are determined on the specific identification method and are included in other non-operating income on the trade date.

A decline in the market value of any security below cost that is deemed to be other than temporary results in a reduction in the carrying amount of the security to fair market value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

The amortized cost basis of the marketable securities – restricted as of March 31, 2011 was \$25.8 million.

New Accounting Pronouncements

In December 2010, FASB issued Accounting Standards Update ("ASU") No. 2010-29, "Business Combinations" (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU specifies that when financial statements are presented, the revenue and earnings of the combined entity should be disclosed as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 is effective for business combinations with acquisition dates on or after January 1, 2011. The adoption of this update did not have an impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, "Intangibles-Goodwill and Other" (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This

ASU requires that reporting units with zero or negative carrying amounts perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for the Company beginning with this interim period. The adoption of this update did not have an impact on the Company's financial condition or results of operations.

Table of Contents

Reclassifications

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

3. Earnings Per Share

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

During the three months ended March 31, 2011 and 2010, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock and restricted stock unit awards were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock unit grants excluded from the calculations of diluted net loss per share was 1.8 million for both the three months ended March 31, 2011 and 2010.

4. Acquisitions and Dispositions

Effective January 13, 2011, the Company acquired the underlying real estate interest in 12 assisted living communities that the Company previously leased for an aggregate purchase price of \$31.3 million, which was paid from cash on hand. The results of operations of the previously leased communities are included in the condensed consolidated financial statements from the effective date of the lease agreement and are reported in the Assisted Living segment.

Effective February 1, 2011, the Company acquired the underlying real estate interest in one assisted living community that the Company previously leased for an aggregate purchase price of \$9.8 million, which was paid from cash on hand. The results of operations of the previously leased community are included in the condensed consolidated financial statements from the effective date of the lease agreement and are reported in the Assisted Living segment.

Effective February 1, 2011, the Company acquired one assisted living community for an aggregate purchase price of \$9.2 million, which was paid from cash on hand. The results of operations of the acquired community are included in the condensed consolidated financial statements from the effective date of the acquisition and are reported in the Assisted Living segment.

During the three months ended March 31, 2011, the Company purchased two home health agencies for an aggregate purchase price of approximately \$1.0 million. The entire purchase price of the acquisitions has been ascribed to an indefinite useful life intangible asset and recorded on the condensed consolidated balance sheet under other intangible assets, net.

During the three months ended March 31, 2011, the Company sold two communities for an aggregate selling price of \$23.1 million. The results of operations of the communities were previously reported in the Assisted Living segment.

5. Stock-Based Compensation

The Company recorded \$4.5 million and \$4.9 million of compensation expense in connection with grants of restricted stock and restricted stock units for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2011 and 2010, compensation expense was calculated net of forfeitures estimated from 0% to 10% and 0% to 5%, respectively, of the shares granted.

Table of Contents

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

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

| | Shares Granted | Value Per Share | Total Value |
|-----------------------------------|----------------|-----------------|-------------|
| | | \$21.41 – | |
| Three months ended March 31, 2011 | 70 | \$23.45 | \$1,637 |

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

6. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the three months ended March 31, 2011 and the year ended December 31, 2010 presented on an operating segment basis (dollars in thousands):

| | March 31, 2011 | | | | December 31, 2010 | | | |
|----------------------------|-----------------------|-------------|--|-----------|-----------------------|-------------|--|-----------|
| | Gross Carrying Amount | Adjustments | Accumulated Impairment and Other Charges | Net | Gross Carrying Amount | Adjustments | Accumulated Impairment and Other Charges | Net |
| R e t i r e m e n t | | | | | | | | |
| Centers | \$7,642 | \$ (34) | \$ (487) | \$7,121 | \$7,642 | \$ — | \$ (487) | \$7,155 |
| Assisted Living | 102,680 | (106) | (142) | 102,432 | 102,680 | (142) | — | 102,538 |
| CCRCs | 214,999 | — | (214,999) | — | 214,999 | — | (214,999) | — |
| Total | \$325,321 | \$ (140) | \$ (215,628) | \$109,553 | \$325,321 | \$ (142) | \$ (215,486) | \$109,693 |

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. No indicators of impairment were present during the three months ended March 31, 2011.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of other intangible assets at March 31, 2011 and

December 31, 2010 (dollars in thousands):

12

Table of Contents

| | March 31, 2011 | | December 31, 2010 |
|-----------------------------|-----------------------------|-----|-------------------|
| Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying |