Brookdale Senior Living Inc.
Form 10-K
February 25, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

111 Westwood Place, Suite 400
Brentwood, Tennessee 37027
(Address of Principal Executive Offices)

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

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] 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 [X]

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 [X] 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 [X] 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 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. (Check one):

Large accelerated filer [X]	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 Act). Yes [ ] No [X]

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $4.2 billion. The market value calculation was determined using a per share price of $33.34, the price at which the registrant's common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by non-affiliates excludes only those shares beneficially owned by the registrant's executive officers, directors, and stockholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

As of February 19, 2015, 183,504,959 shares of the registrant's common stock, $0.01 par value, were outstanding (excluding unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Definitive Proxy Statement relating to its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2014

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

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our operational initiatives and growth strategies and our expectations regarding their effect on our results; our expectations regarding the economy, the senior living industry, occupancy, revenue, cash flow, operating income, expenses, capital expenditures, Program Max opportunities, cost savings, the demand for senior housing, the home resale market, expansion, development and construction activity, acquisition opportunities, asset dispositions, our share repurchase program, taxes, capital deployment, returns on invested capital and CFFO; our expectations regarding returns to shareholders and our growth prospects; our expectations concerning the future performance of recently acquired communities and the effects of acquisitions on our financial results; our ability to secure financing or repay, replace or extend existing debt at or prior to maturity; our ability to remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding liquidity and leverage; our expectations regarding financings and refinancings of assets (including the timing thereof) and their effect on our results; our expectations regarding changes in government reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvements, increases in annual rental rates and the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health, personalized health and hospice); our plans to expand, renovate, redevelop and reposition existing communities; our plans to acquire additional communities, asset portfolios, operating companies and home health agencies; the expected project costs for our expansion, redevelopment and repositioning program; our expected levels of expenditures and reimbursements (and the timing thereof); our expectations regarding our sales, marketing and branding initiatives and their impact on our results; our expectations for the performance of our entrance fee communities; our ability to anticipate, manage and address industry trends and their effect on our business; our expectations regarding the payment of dividends; our ability to increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined in this Annual Report on Form 10-K); and our expectations regarding the integration of Emeritus and the transactions with HCP. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "could," "would," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "project," "predict," "continue," "plan," "target" or other similar words or expressions. Forward-looking statements are based on certain assumptions or estimates, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition, or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and actual results and performance could differ materially from those projected. Factors which could have a material adverse effect on our operations and future prospects or which could cause events or circumstances to differ from the forward-looking statements include, but are not limited to, the risk associated with the current global economic situation and its impact upon capital markets and liquidity; changes in governmental reimbursement programs; our inability to extend (or refinance) debt (including our credit and letter of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension options associated with certain of our debt agreements; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; our ability to generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness and long-term operating leases on our liquidity; the risk of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; our determination from time to time to purchase any shares under the repurchase program; our ability to fund any repurchases; our ability to effectively manage our growth; our ability to maintain consistent quality control; delays in obtaining regulatory approvals; the risk that we may not be able to expand, redevelop and reposition our communities in accordance with our plans; our ability to complete acquisitions and integrate them into our operations; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the living spaces we lease; early terminations or non-renewal of management agreements; increased competition for skilled personnel; increased union activity; departure of our key officers; increases in market interest rates; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; risks relating to the integration of Emeritus and the transactions with HCP, including in respect of unanticipated difficulties and/or expenditures relating to such transactions; the impact of such transactions on the Company's relationships with residents, employees and third parties; and the inability to obtain, or delays in obtaining, cost savings and synergies from such transactions; as well as other risks detailed from time to time in our filings with the Securities and Exchange Commission, including those set forth under "Item 1A. Risk Factors" contained in this Annual Report on Form 10-K. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in such SEC filings. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this Annual Report on Form 10-K. We cannot guarantee future results, levels of activity, performance or achievements, and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained in this Annual Report on Form 10-K to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

PART I

Item 1. Business.

Unless otherwise specified, references to "Brookdale," "we," "us," "our" or "the Company" in this Annual Report on Form 10-K mean Brookdale Senior Living Inc. together with its consolidated subsidiaries.

Overview

Our Business

As of December 31, 2014, we are the largest operator of senior living communities in the United States based on total capacity, with 1,143 communities in 46 states and the ability to serve approximately 111,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. We operate independent living, assisted living and dementia-care communities and continuing care retirement centers ("CCRCs"). Through our ancillary services program, we also offer a range of outpatient therapy, home health, personalized living and hospice services to residents of many of our communities and to seniors living outside of our communities.

As of December 31, 2014, we owned or leased 982 communities with 83,176 units and provided management services with respect to 161 communities with 27,683 units for third parties or unconsolidated ventures in which we have an ownership interest. As of December 31, 2014, we operated 148 retirement center communities with 26,514 units, 915 assisted living communities with 62,697 units and 80 CCRCs with 21,648 units. We offer therapy services to approximately 54,000 of our units and home health services to approximately 56,000 of our units. The majority of our units are located in campus settings or communities containing multiple services, including CCRCs. During the year ended December 31, 2014, we generated approximately 80.7% of our resident fee revenues from private pay customers. For the year ended December 31, 2014, 39.2% of our resident and management fee revenues were generated from owned communities, 49.4% from leased communities, 10.1% from our Brookdale Ancillary Services business and 1.3% from management fees from communities we operate on behalf of third parties or unconsolidated ventures.

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

We believe that there are substantial organic growth opportunities inherent in our existing portfolio. We intend to take advantage of those opportunities by growing revenues, while maintaining expense control, at our existing communities, continuing the expansion and maturation of our ancillary services programs, expanding, renovating, redeveloping and repositioning our existing communities, and acquiring additional operating companies and communities.

Developments during 2014

During 2014, we announced and completed several transactions as part of our long-term objectives to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, and a reconciliation of net loss to each of Adjusted EBITDA and Facility Operating Income and a reconciliation of net cash provided by operating activities to Cash From Facility Operations.

Emeritus Merger. On July 31, 2014, we acquired Emeritus Corporation ("Emeritus"), a senior living service provider focused on operating residential style communities throughout the United States, for approximately $3.0 billion consisting of the issuance of our stock with a fair value of approximately $1.6 billion and our assumption of approximately $1.4 billion aggregate principal amount of existing mortgage indebtedness. At the closing of the merger, the size of our consolidated portfolio increased by 493 communities, 182 of which were owned and 311 of which were subject to leases that we directly or indirectly assumed in the merger. The Emeritus communities provide independent living, assisted living, memory care and, to a lesser extent, skilled nursing care.

The merger significantly increased our scale and provides us the opportunity to leverage this scale to build our national brand and provide greater organic growth, achieve greater operating efficiencies, and drive new innovations to serve our residents. In addition, the merger provided us entry into 10 new states and significantly increased our presence in many high-population states, especially in the west and northeast. Enhanced geographic coverage and density is a contributing factor to our ability to increase our operating efficiencies and may provide additional opportunities for growth from markets with clusters of assets. The merger also enables us to expand our therapy, home health and hospice ancillary programs into the Emeritus communities and accelerate the introduction of Emeritus' Nurse on Call home health services into our major markets.

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

HCP Ventures and Lease Amendments. On August 29, 2014, we completed transactions with HCP, Inc. ("HCP") pursuant to which we and HCP entered into two ventures and amended the terms of certain existing triple net leases between us and HCP (including those acquired in the Emeritus merger). Each of the ventures uses a "RIDEA" structure, whereby we and HCP invested in an "opco" entity and a "propco" entity. The propco owns most of the applicable communities and leases such communities to the opco pursuant to long-term leases entered into at the closing. The opco owns the remainder of the applicable communities not owned by the propco, and at the closing the opco engaged an affiliate of ours to manage all of the owned and leased communities pursuant to management agreements with 15-year terms subject to certain extension options. The transactions with HCP provide us a strategic capital platform to continue to grow in the senior housing industry and to deliver the best, high-quality solutions for our current residents and address the growing population of seniors.

CCRC Venture. At the closing, we and HCP entered into a venture with respect to certain entry fee CCRCs previously owned, leased and/or operated by us. We own a 51% ownership interest, and HCP owns a 49% ownership interest, in each of the propco and opco. At the closing, we contributed to the venture eight wholly-owned entities (owning eight CCRCs subject, in certain cases, to existing debt) and certain purchase options with respect to the HCP Communities (as defined below), and HCP contributed to the venture three wholly-owned entities (owning three properties in two CCRC communities (the "HCP Communities")). In addition, HCP contributed $323.5 million in cash and the venture completed the purchases of four communities managed by us for an aggregate purchase price of $323.5 million immediately following the closing. Each of the communities in the venture is managed by us pursuant to market rate management agreements entered into at the closing, and we have agreed to guarantee certain obligations of the manager under the applicable management agreements. Each of the propco and opco is governed by a board of managers consisting of six members, with three representatives appointed by each of us and HCP.

HCP 49 Venture. In addition, at the closing, we and HCP entered into a venture with respect to certain independent living, assisted living, memory care and/or skilled nursing care communities previously owned by HCP and leased and historically operated by Emeritus. We acquired the leases though the acquisition of Emeritus, and our entry into the venture effectively terminated the leases. HCP had granted Emeritus purchase option rights with respect to each of the 49 communities, and these purchase options were terminated at the closing. We own a 20% ownership interest, and HCP owns an 80% ownership interest, in each of the propco and opco. At the closing, an HCP affiliate made a loan to us at prevailing interest rates in the original principal amount of approximately $68 million to fund our initial capital contribution to the venture. HCP contributed 49 communities to propco, and at closing, propco leased the communities to opco. Each of the communities in the venture is managed by an affiliate of ours, and we have agreed to guarantee certain obligations of the manager under the applicable market rate management agreements. During the three months ended December 31, 2014, we repaid the $68 million loan from HCP primarily with the proceeds from the public equity offering completed during the third quarter of 2014.

Master Lease. Finally, at the closing, we and HCP amended and restated several triple net leases between affiliates of HCP and Emeritus, covering an aggregate of 153 communities, together into a single master lease with the communities subject thereto separated into three pools (the "Master Lease"). The term of the Master Lease is 14 years for the pool 1 communities, 15 years for the pool 2 communities and 16 years for the pool 3 communities, with an average of approximately fifteen years, in each case subject to 2 extension options of approximately 10 years each, and the Master Lease is guaranteed by us. The Master Lease provided for total base rent in 2014 of approximately $158.0 million, with lower future rent payments and escalations compared to the previously existing leases. Under the Master Lease, HCP has agreed to make available up to $100.0 million for capital expenditures related to the communities during calendar years 2014 through 2017 at an initial lease rate of 7.0%. In addition, the Master Lease includes a purchase option in our favor for up to 10 communities at an aggregate purchase price not to exceed $60.0 million. On December 29, 2014, we exercised this purchase option and agreed to purchase nine communities for an aggregate purchase price of $60.0 million.

During 2014, after completion of the transactions with Emeritus and HCP, we continued our efforts to strengthen our financial position. In the fourth quarter of 2014, we expanded and extended the maturity date of our secured credit facility, and in the third quarter of 2014 we completed a registered public equity offering, which resulted in net proceeds of approximately $330.4 million. During the three months ended December 31, 2014, we repaid $275.9 million of existing long-term debt with a weighted average interest rate of 5.5%, financed primarily with the proceeds of the public equity offering, and we have used and are using the remaining net proceeds to finance the exercise of purchase options on certain communities currently leased by us and for other general corporate purposes, which may include additional debt repayments and the acceleration of capital investments in our communities and corporate infrastructure platform. We ended the year with $104.1 million of unrestricted cash and cash equivalents on our consolidated balance sheet and $388.4 million of availability on our secured credit facility.

During the year, we also made additional progress on our Program Max initiative under which we expand, renovate, redevelop and reposition certain of our existing communities where economically advantageous. For the year ended December 31, 2014, we invested $59.8 million on Program Max projects, net of $34.6 million of third party lessor reimbursement. We completed 16 Program Max projects in 2014, which resulted in 396 net new units. We currently have 18 additional Program Max projects that have been approved, most of which have begun construction and are expected to generate 418 net new units.

Growth Strategy

Our primary growth objectives are to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income. Key elements of our strategy to achieve these objectives include:

Organic growth in our core business, including expense control and the realization of economies of scale. We plan to grow our existing operations by increasing revenues through a combination of occupancy growth and increases in the monthly service fees we receive. We believe we will continue to see improving demand fundamentals in the senior living industry. In addition, we intend to focus on growing occupancy and rates by continually improving our operational, sales and marketing execution. We have recently taken steps to centralize and modernize our marketing function and programs to meet the changing manner in which our prospective customers and their families approach a buying decision. We have created a multi-layered marketing approach, which greatly enhances the use of the internet and response mechanisms like centralized call centers. Much of our marketing approach is centered on the Brookdale branding initiative that was launched in 2013. We also plan to continue our efforts to achieve cost savings through the realization of additional economies of scale and initiatives designed to improve operational effectiveness. We will continue to improve our systems and processes to most efficiently meet the needs of our residents. The size of our business has allowed us to achieve savings in the procurement of goods and services, and we expect that we can achieve additional savings.

Growth through strategic capital allocation. We plan to grow our revenues and cash flows by deploying capital to increase the value of existing assets and adding new communities or business lines. We intend to continue investing significant capital expenditures into our portfolio to renovate and upgrade communities, which we expect will drive greater occupancy and higher rates. Through our Program Max initiative, we intend to expand, renovate, redevelop and reposition certain of our existing communities where economically advantageous. Certain of our communities with stabilized occupancies and excess demand in their respective markets may benefit from additions and expansions (which additions and expansions may be subject to landlord, lender and other third party consents). Additionally, the community, as well as our presence in the market, may benefit from adding a new level of service for residents. Through Program Max, we may also reposition certain communities to meet the evolving needs of our customers. This may include converting space from one level of care to another, reconfiguration of existing units, the addition of services that are not currently present or physical plant modifications. As opportunities arise, we plan to continue to take advantage of the fragmented continuing care, independent living and assisted living sectors by selectively purchasing existing operating companies, asset portfolios, home health agencies and senior living communities. We may also seek to acquire the fee interest in communities that we currently lease or manage. Our acquisition strategy will continue to focus primarily on accretive acquisitions of strategic portfolios or select communities that fill a service level need in one of our market continuums.

Growth through development of a market leading Brookdale brand. We plan to continue to build a recognized national brand, which we believe will create market differentiation and value enhancement through higher occupancy and increased rates. Being the sole senior living provider with a national footprint and diverse service offerings, we are best positioned to become the leading solutions provider for seniors and their families as they grapple with the issues of aging. We expect that aligning and unifying marketing activities and spending within the brand initiative will drive preference for Brookdale among prospects. We expect that creating brand equity will drive loyalty with residents and their families and, importantly, with associates, thereby improving recruitment, engagement and retention.

Growth through innovation of product offerings, including our Brookdale Ancillary Services programs. We plan to grow our revenues by innovating our product offerings and providing new senior living solutions to meet evolving consumer needs and expectations. We plan to provide more solutions for current customers and leverage and expand products to serve new customers. We will continue to roll out hospice services into our markets. In 2014, we increased the number of markets with hospice services to 18 and expect to continue to add markets over the next several years. We also plan to leverage the array of services that are currently offered to residents in our buildings to seniors who want to remain in their homes. Through the Brookdale Ancillary Services program, we currently provide therapy, home health, hospice and other ancillary services, as well as education and wellness programs. We plan to focus on expanding those services outside of our communities to seniors in their homes, initially to those who are short-term patients of skilled nursing centers. We expect that this will not only grow cash flow, but providing quality service in a person's home can become the entry point into the full continuum of our services. We also plan to focus on the opportunity to become a significant player in the post-acute healthcare world. We expect to continue our initiatives to link our unique continuum of care with other post-acute care providers to provide the most effective, comprehensive set of solutions for seniors.

The Senior Living Industry

The senior living industry has undergone dramatic growth in the last twenty years, marked by the emergence of the assisted living segment in the mid-1990s. The industry is highly fragmented and characterized by numerous local and regional operators. We are one of a limited number of large operators that provide a broad range of community locations and service level offerings at varying price levels.

Beginning in 2007, the industry was affected by the downturn in the general economy, increased unemployment and a downturn in the housing market. In spite of these factors, industry occupancy declined only approximately 300 basis points to a cyclic low in early 2010 of 87.0%, while rate growth remained positive at less than 1% per year. This also resulted in a near halt in construction of new units. The industry has experienced a slow recovery in occupancy and rate growth since the beginning of 2010 according to the National Investment Center for the Seniors Housing & Care Industry ("NIC"). Over the past year, occupancy has been rising modestly, as the pace of absorption has been outpacing inventory growth.

We believe that a number of trends will contribute to the continued growth of the senior living industry in coming years. The primary market for senior living services is individuals age 75 and older. According to U.S. Census data, that group is projected to be the fastest growing age cohort over the next twenty years. As a result of scientific and medical breakthroughs over the past 30 years, seniors have been living longer. Due to demographic trends, and continuing advances in science, nutrition and healthcare, the senior population will continue to grow, and we expect the demand for senior living services to continue to increase in future years.

We believe the senior living industry has been and will continue to be impacted by several other trends. Increased longevity results in increasing frailty in seniors, soaring rates of dementia among the elderly, and a growing burden of chronic illness and chronic conditions. As a result of increased mobility in society, a reduction of average family size and increased number of two-wage earner couples, families struggle to provide care for seniors and look for alternatives outside of their family for their care. There is a growing consumer awareness among seniors and their families concerning the types of services provided by senior living operators, which has further contributed to the demand for senior living services. Also, the current prospective senior customer possesses greater financial resources than in the past, which makes it more likely that they are able to afford to live in market-rate senior housing. Seniors in the demographic cohort that were born between 1925 and 1945 have a significant amount of income generated from savings, pensions, and social security, along with a strong asset base, particularly now that the national housing markets have rebounded.

Challenges in our industry include increased state and local regulation of the assisted living and skilled nursing sectors, which has led to an increase in the cost of doing business. The regulatory environment continues to intensify in the number and types of laws and regulations affecting us, accompanied by increased enforcement activity by state and local officials. In addition, like other companies, our financial results may be negatively impacted by increasing employment costs including salaries, wages and benefits, such as health care, for our employees. Increases in the costs of food, utilities, insurance, and real estate taxes may also have a negative impact on our financial results.

Beginning October 1, 2011, we were impacted by a reduction in the reimbursement rates for Medicare skilled nursing patients and home health patients, as well as a negative change in the allowable method for delivering therapy services to skilled nursing patients (resulting in increased therapy labor expense). In addition, certain per person annual limits on Medicare reimbursement for therapy services became effective in 2006, subject to certain exceptions. These exceptions are currently scheduled to expire on March 31, 2015. If these exceptions are modified or not extended beyond that date, our revenues and net operating income relating to our outpatient therapy services could be materially adversely impacted.

Effective October 1, 2012, certain Medicare Part B therapy services exceeding a specified threshold are subject to a prepayment manual medical review process. The review process has had an adverse effect on the provision and billing of services for patients and could negatively impact therapist productivity. These new Medicare Part B therapy cap exception requirements, including the applicable pre-approval requirements, could also negatively impact the revenues and net operating income relating to our outpatient therapy services business.

In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. For example, based on current federal law, an automatic 2% reduction in Medicare spending was imposed beginning on March 1, 2013. In 2012, we saw a rate reduction on multiple procedure payments ("MPPR") which was further increased effective April 1, 2013. In addition, payments for our outpatient therapy services are tied to Medicare's physician payment fee schedule. By statute, the physician fee schedule is subject to annual automatic adjustment by a sustainable growth rate ("SGR") formula that has resulted in reductions in reimbursement rates every year since 2002. However, in each case, Congress has acted to suspend or postpone the effect of these automatic reimbursement reductions. If Congress does not extend this relief, as it has done since 2002, or permanently modify the SGR formula by April 1, 2015, payment levels for outpatient therapy services under the physician fee schedule will be reduced at that point by approximately 25%. We cannot predict what action, if any, Congress will take on the physician fee schedule or what future rule changes the Centers for Medicare and Medicaid Services ("CMS") will implement. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

Our History

We were formed as a Delaware corporation in June 2005 for the purpose of combining two leading senior living operating companies, Brookdale Living Communities, Inc. ("BLC") and Alterra Healthcare Corporation ("Alterra"). BLC and Alterra had been operating independently since 1986 and 1981, respectively. On November 22, 2005, we completed our initial public offering of common stock, and on July 25, 2006, we acquired American Retirement Corporation ("ARC"), another leading senior living provider that had been operating independently since 1978. On September 1, 2011, we completed the acquisition of Horizon Bay, the then-ninth largest operator of senior living communities in the United States.

On July 31, 2014, we completed the merger contemplated by that certain Agreement and Plan of Merger, dated as of February 20, 2014, by and among Emeritus Corporation, a Washington corporation, Brookdale Senior Living Inc., and Broadway Merger Sub Corporation, a Delaware corporation and wholly-owned subsidiary of ours, pursuant to which the subsidiary merged with and into Emeritus, with Emeritus continuing as the surviving corporation and a wholly-owned subsidiary of ours.

Our Communities and Service Offerings

We offer a variety of senior living housing and service alternatives in communities located across the United States. Our communities consist of retirement center communities, assisted living communities, rental CCRCs and entry fee CCRCs. We manage certain of our communities for third parties or unconsolidated ventures in which we have an ownership interest pursuant to management agreements. In addition, through our ancillary services program, we provide outpatient therapy, home health, personalized living and hospice services to residents of many of our communities and to seniors living outside of our communities.

Retirement Centers. Our retirement center communities are primarily designed for middle to upper income seniors generally age 75 and older who desire an upscale residential environment providing the highest quality of service.

The majority of our retirement center communities consist of both independent and assisted living units in a single community, which allows residents to "age-in-place" by providing them with a continuum of senior independent and assisted living services. While the number varies depending upon the particular community, as of December 31, 2014 approximately 75.9% of all of the units at our retirement center communities are independent living units, with the balance of units licensed for assisted living.

Our retirement center communities are large multi-story buildings containing on average 179 units with extensive common areas and amenities. Residents may choose from studio, one-bedroom and two-bedroom units, depending upon the specific community.

Each retirement center community provides residents with basic services such as meal service, 24-hour emergency response, housekeeping, concierge services, transportation and recreational activities. Most of these communities also offer custom tailored supplemental care services at an additional charge, which may include medication reminders, check-in services and escort and companion services.

In addition to the basic services, our retirement center communities that include assisted living also provide residents with supplemental care service options to provide assistance with ADLs. The levels of care provided to residents vary from community to community depending, among other things, upon the licensing requirements and healthcare regulations of the state in which the community is located.

Residents in our retirement center communities are able to maintain their residency for an extended period of time due to the range of service options available to residents (not including skilled nursing) as their needs change.

Residents with cognitive or physical frailties and higher level service needs are accommodated with supplemental services in their own units or, in certain communities, are cared for in a more structured and supervised environment on a separate wing or floor. These communities also generally have a dedicated assisted living staff, including nurses at the majority of communities, and separate assisted living dining rooms and activity areas.

Retirement center communities that we own or lease are included in our Retirement Centers segment, and retirement center communities for which we provide management services for third parties or unconsolidated ventures in which we have an ownership interest are included in our Management Services segment. As of December 31, 2014, our Retirement Center segment consisted of 99 retirement center communities with 17,362 units, representing 15.7% of our total senior living capacity, and 49 retirement center communities with 9,152 units were included in our Management Services segment, representing 8.3% of our total senior living capacity. In the aggregate, these retirement center communities represented 23.9% of our total senior living capacity.

Assisted Living. Our assisted living communities offer housing and 24-hour assistance with ADLs to mid-acuity frail and elderly residents. Our assisted living communities include both freestanding, multi-story communities with more than 50 beds and smaller, freestanding single story communities with less than 50 beds. Depending upon the specific location, the community may include (i) private studio, one-bedroom and one-bedroom deluxe apartments, or (ii) individual rooms for one or two residents in wings or "neighborhoods" scaled to a single-family home, which includes a living room, dining room, patio or enclosed porch, laundry room and personal care area, as well as a caregiver work station.

We also operate memory care communities, which are freestanding assisted living communities specially designed for residents with Alzheimer's disease and other dementias requiring the attention, personal care and services needed to help cognitively impaired residents maintain a higher quality of life. Our memory care communities have from 14 to 69 beds and some are part of a campus setting which includes a freestanding assisted living community.

All residents at our assisted living and memory care communities receive the basic care level, which includes ongoing health assessments, three meals per day and snacks, coordination of special diets planned by a registered dietitian, assistance with coordination of physician care, social and recreational activities, housekeeping and personal laundry services. In some locations we offer our residents exercise programs and programs designed to address issues associated with early stages of Alzheimer's and other forms of dementia. In addition, we offer at additional cost, higher levels of personal care services to residents at these communities who are very physically frail or experiencing early stages of Alzheimer's disease or other dementia and who require more frequent or intensive physical assistance or increased personal care and supervision due to cognitive impairments.

As a result of their progressive decline in cognitive abilities, residents at our memory care communities typically require higher levels of personal care and services and therefore pay higher monthly service fees. Specialized services include assistance with ADLs, behavior management and an activities program, the goal of which is to provide a normalized environment that supports residents' remaining functional abilities. Whenever possible, residents participate in all facets of daily life at the residence, such as assisting with meals, laundry and housekeeping.

Assisted living communities (including memory care communities) that we own or lease are included in our Assisted Living segment, and assisted living communities for which we provide management services for third parties or unconsolidated ventures in which we have an ownership interest are included in our Management Services segment. As of December 31, 2014, our Assisted Living segment consisted of 838 assisted living communities with 55,232 units, representing 49.8% of our total senior living capacity, and 77 assisted living communities with 7,465 units were included in our Management Services segment, representing 6.7% of our total senior living capacity. In the aggregate, these assisted living communities represented 56.6% of our total senior living capacity.

As of December 31, 2014, we provide memory care services at 576 of our communities, aggregating 14,054 memory care units across our segments. These communities include 128 freestanding memory care communities with 4,934 units included in our Assisted Living segment.

CCRCs. Our CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of our CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care/Alzheimer's service areas.

CCRCs that we own or lease are included in our CCRCs - Rental segment, and CCRCs for which we provide management services for third parties or unconsolidated ventures in which we have an ownership interest are included in our Management Services segment. As of December 31, 2014, our CCRCs - Rental segment included 45 CCRCs with 10,582 units, representing 9.5% of our total senior living capacity, and 35 CCRCs with 11,066 units were included in our management services segment, representing 10.0% of our total senior living capacity. In the aggregate, these CCRCs represented 19.5% of our total senior living capacity.

Eighteen of our CCRCs allow for residents in the independent living apartment units to pay a one-time upfront entrance fee, typically $100,000 to $400,000 or more, which is partially refundable in certain circumstances. We refer to these communities as entry fee CCRCs. The amount of the entrance fee varies depending upon the type and size of the dwelling unit, the type of contract plan selected, whether the contract contains a lifecare benefit (i.e., a healthcare discount) for the resident, the amount and timing of the refund, and other variables. These agreements are subject to regulations in various states. In addition to their initial entrance fee, residents under all of our entrance fee agreements also pay a monthly service fee, which entitles them to the use of certain amenities and services. Since entrance fees are paid upon initial occupancy, the monthly fees are generally less than fees at a comparable rental community. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the sale of the unit, or in some agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. In addition, some entrance fee agreements entitle the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit upon resale. As of December 31, 2014, our CCRCs - Rental segment included three entry fee CCRCs with 1,218 units, representing 1.1% of our total senior living capacity, and 15 entry fee CCRCs with 7,487 units were included in our Management Services segment, representing 6.8% of our total senior living capacity.

Brookdale Ancillary Services. Through our ancillary services program, we currently provide home health, therapy and other ancillary services, as well as education and wellness programs, to residents of many of our communities. These programs are focused on wellness and physical fitness to allow residents to maintain maximum independence. These services provide many continuing education opportunities for residents and their families through health fairs, seminars, and other consultative interactions. The therapy services we provide include physical, occupational, speech and other specialized therapy and home health services. The home health services we provide include skilled nursing, physical therapy, occupational therapy, speech language pathology, home health aide services, and social services as needed. In addition to providing these in-house therapy and wellness services at our communities, we also provide these services to other senior living communities that we do not own or operate and to seniors living outside of our communities. These services may be reimbursed under the Medicare program or paid directly by residents from private pay sources and revenues are recognized as services are provided. We have also begun offering hospice services in certain locations. We believe that our ancillary services offerings are unique in the senior living industry and that we have a significant advantage over our competitors with respect to providing ancillary services because of our established infrastructure and experience.

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

Management Services. We operate certain of our communities pursuant to management agreements. In some of these cases, the community is owned by third parties and, in other cases, the community is owned in an unconsolidated venture in which we have an ownership interest. Under the management agreements for these communities, we receive management fees as well as reimbursed expenses, which represent the reimbursement of certain expenses we incur on behalf of the owners.

As of December 31, 2014, the 161 communities and 27,683 units in our Management Services segment represented 25.0% of our total senior living capacity. As of that date, we operated 61 communities, representing 8,396 units, for third parties and 100 communities, representing 19,287 units, for unconsolidated ventures in which we have an ownership interest. As of December 31, 2014, these communities consisted of 49 retirement center communities, 77 assisted living communities and 35 CCRCs.

Competitive Strengths

We believe our nationwide network of senior living communities is well positioned to benefit from the growth and increasing demand in the industry. Some of our most significant competitive strengths are:

Skilled management team with extensive experience. Our senior management team has extensive experience in acquiring, operating and managing a broad range of senior living assets, including experience in the senior living, healthcare and real estate industries.

Geographically diverse, high-quality, purpose-built communities. Our acquisition of Emeritus expanded our unit capacity by more than two-thirds, provided entry into 10 new states and significantly increased our presence in high-population states, especially in the west and northeast. As of December 31, 2014, we are the largest operator of senior living communities in the United States based on total capacity, with 1,143 communities in 46 states and the ability to serve approximately 111,000 residents.

Ability to provide a broad spectrum of care. Given our diverse mix of retirement centers, assisted living communities and CCRCs, we are able to meet a wide range of our customers' needs. We believe that we are one of the few companies in the senior living industry with this capability and the only company that does so at scale on a national basis. We believe that our multiple product offerings create marketing synergies and cross-selling opportunities.

The size of our business allows us to realize cost and operating efficiencies. We are the largest operator of senior living communities in the United States based on total capacity. The size of our business allows us to realize cost savings and economies of scale in the procurement of goods and services. Our scale also allows us to achieve increased efficiencies with respect to various corporate functions. We intend to utilize our expertise and size to capitalize on economies of scale resulting from our national platform. Our geographic footprint and centralized infrastructure provide us with a significant operational advantage over local and regional operators of senior living communities. In connection with our formation transactions and our acquisitions, we negotiated new contracts for food, insurance and other goods and services. In addition, we have and will continue to consolidate corporate functions such as accounting, finance, human resources, legal, information technology and marketing.

Significant experience in providing ancillary services. Through our ancillary services program, we provide a range of education, wellness, therapy, home health and other ancillary services to residents of certain of our retirement centers, assisted living communities, and CCRCs. Having therapy clinics and home health agencies located in our senior living communities to provide needed services to our residents is a distinct competitive difference. We have significant experience in providing these ancillary services and expect to receive additional revenues as we expand our ancillary service offerings to additional communities and to seniors outside of our communities.

Segments

As of December 31, 2014, we had five reportable segments: Retirement Centers; Assisted Living; CCRCs – Rental; Brookdale Ancillary Services and Management Services. These segments were determined based on the way that our chief operating decision maker organizes our business activities for making operating decisions, assessing performance, developing strategy and allocating capital resources.

Operating results from our five business segments are discussed further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 20 to our consolidated financial statements included in this Annual Report on Form 10-K.

Operations

Operations Overview

We believe that successful senior living operators must effectively combine the expertise and business disciplines of housing, hospitality, health care, sales, marketing, dining, finance and real estate.

We continually review opportunities to expand the types of services we provide to our residents. We seek to increase our average monthly revenue per unit each year and seek to increase facility operating margins through a combination of the implementation of efficient operating procedures and the economies of scale associated with the size and number of our communities. Our operating procedures include securing national vendor contracts to obtain the lowest possible pricing for certain services such as food, energy and insurance, implementing effective budgeting and financial controls at each community, and establishing standardized training and operations procedures.

We have implemented intensive standards, policies and procedures and systems, including detailed staff manuals and training materials, which we believe have contributed to high levels of customer service and to improved facility operating margins. We have centralized accounting, finance and other operating functions in our support centers so that, consistent with our operating philosophy, community-based personnel can focus on resident care, family connections and efficient operations. We have established company-wide policies and procedures relating to, among other things: resident care; community design and community operations; billings and collections; accounts payable; finance and accounting; risk management; development of employee training materials and programs; marketing activities; the hiring and training of management and other community-based personnel; compliance with applicable local and state regulatory requirements; and implementation of our acquisition, development and leasing plans.

Consolidated Corporate Operations Support

We have developed a centralized infrastructure and services platform, which provides us with a significant operational advantage over local and regional operators of senior living communities. The size of our business also allows us to achieve increased efficiencies with respect to various corporate functions such as human resources, finance, accounting, legal, information technology and marketing. We are also able to realize cost efficiencies in the purchasing of food, supplies, insurance, benefits, and other goods and services. In addition, we have established centralized operations groups to support all of our product lines and communities in areas such as training, regulatory affairs, asset management, dining and procurement.

We are in the process of executing on our plans to integrate Emeritus into our systems and infrastructure platform. In January 2015, we completed the third of our four cutover waves of integration activities. We expect the fourth wave to be completed in the late summer of 2015, though the overall integration effort will continue throughout 2015. Once wave four is complete, we will have a common systems and infrastructure platform and will be able to manage our business more uniformly across our entire system.

Community Staffing and Training

Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of care and service, social services and financial performance. Each Executive Director receives specialized training from us. In addition, a portion of each Executive Director's compensation is directly tied to the operating performance of the community and key care and service quality measures. We believe that the quality of our communities, coupled with our competitive compensation philosophy, has enabled us to attract high-quality, professional community Executive Directors.

Depending upon the size of the community, each Executive Director is supported by a community staff member who is directly responsible for day-to-day care of the residents and either community staff or regional support to oversee the community's marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, activities, housekeeping, and engineering.

We believe that quality of care and operating efficiency can be maximized by direct resident and staff contact. Employees involved in resident care, including the administrative staff, are trained in the support and care needs of the residents and emergency response techniques. We have adopted formal training and evaluation procedures to help ensure quality care for our residents. We have extensive policy and procedure manuals and hold frequent training sessions for management and staff at each site.

Quality Assurance

We maintain quality assurance programs at each of our communities through our corporate and regional staff. Our quality assurance program is designed to achieve a high degree of resident and family member satisfaction with the care and services that we provide. Our quality control measures include, among other things, community inspections conducted by corporate staff on a regular basis. These inspections cover the appearance of the exterior and grounds; the appearance and cleanliness of the interior; the professionalism and friendliness of staff; quality of resident care (including assisted living services, nursing care, therapy and home health programs); the quality of activities and the dining program; observance of residents in their daily living activities; and compliance with government regulations. Our quality control measures also include the survey of residents and family members on a regular basis to monitor their perception of the quality of services provided to residents.

In order to foster a sense of community as well as to respond to residents' needs and desires, at many of our communities, we have established a resident council or other resident advisory committee that meets monthly with the Executive Director of the community. Separate resident committees also exist at many of these communities for food service, activities, marketing and hospitality. These committees promote resident involvement and satisfaction and enable community management to be more responsive to the residents' needs and desires.

Marketing and Sales

Our marketing strategy is intended to create awareness of our Brookdale brand, our communities, our products and our services among potential residents and their family members and among referral sources, including hospital discharge planners, physicians, clergy, area agencies for the elderly, skilled nursing facilities, home health agencies and social workers. Our marketing staff develops overall strategies for promoting our communities and monitors the success of our marketing efforts, including outreach programs. In addition to direct contacts with prospective referral sources, we also rely on internet inquiries, print advertising, yellow pages advertising, direct mail, signage and special events, health fairs and community receptions. Certain resident referral programs have been established and promoted within the limitations of federal and state laws at many communities.

In order to mitigate the impact of weakness in housing markets, we have implemented several sales and marketing initiatives designed to increase entrance fee sales. These include the acceptance of short-term promissory notes in satisfaction of a resident's required entrance fee from certain pre-qualified, prospective residents who are waiting for their homes to sell. In addition, we have implemented the MyChoice program, which allows new and existing residents in certain communities the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee, thereby offering choices to residents desiring a more affordable ongoing monthly service fee.

Competition

The senior living industry is highly competitive. We compete with numerous organizations that provide similar senior living alternatives, such as home health care agencies, community-based service programs, retirement communities, convalescent centers and other senior living providers. In general, regulatory and other barriers to competitive entry in the retirement center and assisted living sectors of the senior living industry are not substantial. Although new construction of senior living communities has declined in recent years, we have experienced and expect to continue to experience competition in our efforts to acquire and operate senior living communities. Some of our present and potential senior living competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. Consequently, we may encounter competition that could limit our ability to attract residents or expand our business, which could have a material adverse effect on our revenues and earnings. Our only major publicly-traded competitor that operates senior living communities is Capital Senior Living Corporation. Our major private competitors include Sunrise Senior Living, LLC, Life Care Services, LLC and Atria Senior Living Group, as well as a large number of not-for-profit entities.

In addition, several publicly-traded and non-traded real estate investment trusts, or REITs, have similar asset acquisition objectives as we do, along with greater financial resources and/or lower costs of capital than we are able to obtain. This may increase competition for acquisitions that would be suitable to us, making it more difficult for us to compete and successfully implement our growth strategy. Partially as a result of tax law changes enacted through RIDEA, we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties. The largest three of these publicly-traded healthcare REITs measured on equity market capitalization include HCP, Inc., Ventas, Inc. and Health Care REIT, Inc.

Customers

Our target retirement center residents are senior citizens age 75 and older who desire or need a more supportive living environment. The average retirement center resident resides in a retirement center community for approximately 32 months. A number of our retirement center residents relocate to one of our communities in order to be in a metropolitan area that is closer to their adult children.

Our target assisted living residents are predominantly senior citizens age 80 and older who require daily assistance with two or three ADLs. The average assisted living resident resides in an assisted living community for approximately 21 months. Residents typically enter an assisted living community due to a relatively immediate need for services that might have been triggered by a medical event or need.

Our target CCRC residents are senior citizens who are seeking a community that offers a variety of services and a continuum of care so that they can "age in place." These residents generally first enter the community as a resident of an independent living unit and may later move into an assisted living or skilled nursing area as their needs change.

We believe our combination of retirement center, assisted living and dementia care operating expertise and the broad base of customers that this enables us to target creates a unique opportunity for us to invest in a broad spectrum of assets in the senior living industry, including retirement center, assisted living, CCRC and skilled nursing communities.

Employees

As of December 31, 2014, we had approximately 52,500 full-time employees and approximately 29,500 part-time employees, of which 557 work in our Brentwood, Tennessee (a suburb of Nashville) headquarters office, 631 work in our Milwaukee, Wisconsin office and 487 work in our smaller regional support offices and a variety of field-based management positions. We currently consider our relationship with our employees to be good.

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Government Regulation

The regulatory environment surrounding the senior living industry continues to intensify in the number and type of laws and regulations affecting it. In addition, federal, state and local officials are increasingly focusing their efforts on enforcement of these laws and regulations. This is particularly true for large for-profit, multi-community providers like us. Some of the laws and regulations that impact our industry include: state and local laws impacting licensure, protecting consumers against deceptive practices, and generally affecting the communities' management of property and equipment and how we otherwise conduct our operations, such as fire, health and safety laws and regulations and privacy laws; federal and state laws designed to protect Medicare and Medicaid, which mandate what are allowable costs, pricing, quality of services, quality of care, food service, resident rights (including abuse and neglect) and fraud; federal and state residents' rights statutes and regulations; Anti-Kickback and physicians referral ("Stark") laws; and safety and health standards set by the Occupational Safety and Health Administration. We are unable to predict the future course of federal, state and local legislation or regulation. Changes in the regulatory framework could have a material adverse effect on our business.

Many senior living communities are also subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. Although requirements vary from state to state, these requirements may address, among others, the following: personnel education, training and records; community services, including administration of medication, assistance with self-administration of medication and the provision of nursing, home health and therapy services; staffing levels; monitoring of resident wellness; physical plant specifications; furnishing of resident units; food and housekeeping services; emergency evacuation plans; professional licensing and certification of staff prior to beginning employment; and resident rights and responsibilities, including in some states the right to receive health care services from providers of a resident's choice that are not our employees. In several of the states in which we operate or may operate, we are prohibited from providing certain higher levels of senior care services without first obtaining the appropriate licenses. In addition, in several of the states in which we operate or intend to operate, assisted living communities, home health agencies and/or skilled nursing facilities require a certificate of need before the community can be opened or the services at an existing community can be expanded. Senior living communities may also be subject to state and/or local building, zoning, fire and food service codes and must be in compliance with these local codes before licensing or certification may be granted. These laws and regulatory requirements could affect our ability to expand into new markets and to expand our services and communities in existing markets. In addition, if any of our presently licensed communities operates outside of its licensing authority, it may be subject to penalties, including closure of the community.

The intensified regulatory and enforcement environment impacts providers like us because of the increase in the number of inspections or surveys by governmental authorities and consequent citations for failure to comply with regulatory requirements. Unannounced surveys or inspections may occur annually or bi-annually, or following a regulator's receipt of a complaint about the community. From time to time in the ordinary course of business, we receive deficiency reports from state regulatory bodies resulting from such inspections or surveys. Most inspection deficiencies are resolved through an agreed-to plan of corrective action relating to the community's operations, but the reviewing agency typically has the authority to take further action against a licensed or certified community, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Loss, suspension or modification of a license may also cause us to default under our loan or lease agreements and/or trigger cross-defaults. Sanctions may be taken against providers or facilities without regard to the providers' or facilities' history of compliance. We may also expend considerable resources to respond to federal and state investigations or other enforcement action under applicable laws or regulations. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues. However, any future substantial failure to comply with any applicable legal and regulatory requirements could result in a material adverse effect to our business as a whole. In addition, states Attorneys General vigorously enforce consumer protection laws as those laws relate to the senior living industry. State Medicaid Fraud and Abuse Units may also investigate assisted living communities even if the community or any of its residents do not receive federal or state funds.

Regulation of the senior living industry is evolving at least partly because of the growing interests of a variety of advocacy organizations and political movements attempting to standardize regulations for certain segments of the industry, particularly assisted living. Our operations could suffer if future regulatory developments, such as federal assisted living laws and regulations, as well as mandatory increases in the scope and severity of deficiencies determined by survey or inspection officials or increase the number of citations that can result in civil or criminal penalties. Certain current state laws and regulations allow enforcement officials to make determinations on whether the care provided by one or more of our communities exceeds the level of care for which the community is licensed. A finding that a community is delivering care beyond its license might result in the immediate transfer and discharge of residents, which may create market instability and other adverse consequences. Furthermore, certain states may allow citations in one community to impact other communities in the state. Revocation or suspension of a license, or a citation, at a given community could therefore impact our ability to obtain new licenses or to renew existing licenses at other communities, which may also cause us to be in default under our loan or lease agreements and trigger cross-defaults or may also trigger defaults under certain of our credit agreements, or adversely affect our ability to operate and/or obtain financing in the future. If a state were to find that one community's citation will impact another of our communities, this will also increase costs and result in increased surveillance by the state survey agency. If regulatory requirements increase, whether through enactment of new laws or regulations or changes in the enforcement of existing rules, including increased enforcement brought about by advocacy groups, in addition to federal and state regulators, our operations could be adversely affected. In addition, any adverse finding by survey and inspection officials may serve as the basis for false claims lawsuits by private plaintiffs and may lead to investigations under federal and state laws, which may result in civil and/or criminal penalties against the community or individual.

There are various extremely complex federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by health care providers, including those in the senior living industry, and governmental agencies are devoting increasing attention and resources to such anti-fraud initiatives. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Balanced Budget Act of 1997 expanded the penalties for health care fraud. In addition, with respect to our participation in federal health care reimbursement programs, the government or private individuals acting on behalf of the government may bring an action under the False Claims Act alleging that a health care provider has defrauded the government and seek treble damages for false claims and the payment of additional monetary civil penalties. Recently, other health care providers have faced enforcement action under the False Claims Act. The False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, so-called "whistleblower" suits have become more frequent. Also, if any of our communities exceeds its level of care, we may be subject to private lawsuits alleging "transfer trauma" by residents. Such allegations could also lead to investigations by enforcement officials, which could result in penalties, including the closure of communities. The violation of any of these regulations may result in the imposition of fines or other penalties that could jeopardize our business.

Additionally, we operate communities that participate in federal and/or state health care reimbursement programs, including state Medicaid waiver programs for assisted living communities, the Medicare skilled nursing facility benefit program and other healthcare programs such as therapy and home health services, or other federal and/or state health care programs. Consequently, we are subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state and we cannot be sure that these laws will be interpreted consistently or in keeping with past practices. Violation of any of these laws can result in loss of licensure, claims for recoupment, civil or criminal penalties and exclusion of health care providers or suppliers from furnishing covered items or services to beneficiaries of the applicable federal and/or state health care reimbursement program. Loss of licensure may also cause us to default under our leases and loan agreements and/or trigger cross-defaults.

We are also subject to certain federal and state laws that regulate financial arrangements by health care providers, such as the Federal Anti-Kickback Law, the Stark laws and certain state referral laws. The Federal Anti-Kickback Law makes it unlawful for any person to offer or pay (or to solicit or receive) "any remuneration ... directly or indirectly, overtly or covertly, in cash or in kind" for referring or recommending for purchase any item or service which is eligible for payment under the Medicare and/or Medicaid programs. Authorities have interpreted this statute very broadly to apply to many practices and relationships between health care providers and sources of patient referral. If we were to violate the Federal Anti-Kickback Law, we may face criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as Medicare and Medicaid, which may also cause us to default under our leases and loan agreements and/or trigger cross-defaults. Adverse consequences may also result if we violate federal Stark laws related to certain Medicare and Medicaid physician referrals. While we endeavor to comply with all laws that regulate the licensure and operation of our senior living communities, it is difficult to predict how our revenues could be affected if we were subject to an action alleging such violations. We are also subject to federal and state laws designed to protect the confidentiality of patient health information. The U.S. Department of Health and Human Services, or HHS, has issued rules pursuant to HIPAA relating to the privacy of such information. Rules that became effective April 14, 2003 govern our use and disclosure of health information at certain HIPAA covered communities. We established procedures to comply with HIPAA privacy requirements at these communities. We were required to be in compliance with the HIPAA rule establishing administrative, physical and technical security standards for health information by April 2005. To the best of our knowledge, we are in compliance with these rules.

Environmental Matters

Under various federal, state and local environmental laws, a current or previous owner or operator of real property, such as us, may be held liable in certain circumstances for the costs of investigation, removal or remediation of certain hazardous or toxic substances, including, among others, petroleum and materials containing asbestos, that could be located on, in, at or under a property, regardless of how such materials came to be located there. Additionally, such an owner or operator of real property may incur costs relating to the release of hazardous or toxic substances, including government fines and payments for personal injuries or damage to adjacent property. The cost of any required investigation, remediation, removal, mitigation, compliance, fines or personal or property damages and our liability therefore could exceed the property's value and/or our assets' value. In addition, the presence of such substances, or the failure to properly dispose of or remediate the damage caused by such substances, may adversely affect our ability to sell such property, to attract additional residents and retain existing residents, to borrow using such property as collateral or to develop or redevelop such property. In addition, such laws impose liability for investigation, remediation, removal and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third-party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances as well as without regard to whether such release or disposal was in compliance with law at the time it occurred. Moreover, the imposition of such liability upon us could be joint and several, which means we could be required to pay for the cost of cleaning up contamination caused by others who have become insolvent or otherwise judgment proof.

We do not believe that we have incurred such liabilities that would have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to regulation under various federal, state and local environmental laws, including those relating to: the handling, storage, transportation, treatment and disposal of medical waste products generated at our communities; identification and warning of the presence of asbestos-containing materials in buildings, as well as removal of such materials; the presence of other substances in the indoor environment; and protection of the environment and natural resources in connection with development or construction of our properties.

Some of our communities generate infectious or other hazardous medical waste due to the illness or physical condition of the residents, including, for example, blood-contaminated bandages, swabs and other medical waste products and incontinence products of those residents diagnosed with an infectious disease. The management of infectious medical waste, including its handling, storage, transportation, treatment and disposal, is subject to regulation under various federal, state and local environmental laws. These environmental laws set forth the management requirements for such waste, as well as related permit, record-keeping, notice and reporting obligations. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste. The use of such waste management companies does not immunize us from alleged violations of such medical waste laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to cleanup disposal sites at which such wastes have been disposed. Any finding that we are not in compliance with environmental laws could adversely affect our business operations and financial condition.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, their employees and certain other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their buildings. The regulations also set forth employee training, record-keeping requirements and sampling protocols pertaining to asbestos-containing materials and potential asbestos-containing materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos-containing materials and potential asbestos-containing materials. The regulations may affect the value of a building containing asbestos-containing materials and potential asbestos-containing materials in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potential asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials.

The presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may lead to the incurrence of costs for remediation, mitigation or the implementation of an operations and maintenance plan. Furthermore, the presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may present a risk that third parties will seek recovery from the owners, operators or tenants of such properties for personal injury or property damage. In some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract residents and could adversely affect a community's market value.

We believe that we are in material compliance with applicable environmental laws.

We are unable to predict the future course of federal, state and local environmental regulation and legislation. Changes in the environmental regulatory framework (including legislative or regulatory efforts designed to address climate change, such as the proposed "cap and trade" legislation) could have a material adverse effect on our business. In addition, because environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports, are available free of charge through our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, at the following address: www.brookdale.com. The information within, or that can be accessed through, the web site is not part of this report.

We have posted our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation, Investment and Nominating and Corporate Governance Committees on our web site at www.brookdale.com. In addition, our Code of Ethics for Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, President, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller is also available on our website. Our corporate governance materials are available in print free of charge to any stockholder upon request to our Corporate Secretary, Brookdale Senior Living Inc., 111 Westwood Place, Suite 400, Brentwood, Tennessee 37027.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 24, 2015:

Name	Age	Position
T. Andrew Smith	54	Chief Executive Officer and Director
Mark W. Ohlendorf	54	President and Chief Financial Officer
Gregory B. Richard	60	Executive Vice President and Chief Operating Officer
Bryan D. Richardson	56	Executive Vice President and Chief Administrative Officer
Glenn O. Maul	60	Executive Vice President and Chief People Officer
Tricia A. Conahan	57	Executive Vice President and Chief Marketing Officer
Kristin A. Ferge	41	Executive Vice President, Chief Accounting Officer and Treasurer
George T. Hicks	57	Executive Vice President – Finance
H. Todd Kaestner	59	Executive Vice President – Corporate Development

T. Andrew Smith has served as our Chief Executive Officer since February 2013 and a member of our Board of Directors since June 2014. He has over 25 years of experience in seniors housing, mergers and acquisitions, real estate and capital markets transactions, corporate finance and healthcare. From October 2006 to February 2013, Mr. Smith served as our Executive Vice President, General Counsel and Secretary. In addition to his role in managing our legal affairs, Mr. Smith was responsible for the management and oversight of our corporate development functions (including acquisitions and expansion and development activity); corporate finance (including capital structure, debt and lease transactions and lender/lessor relations); strategic planning; and risk management. Prior to joining Brookdale, Mr. Smith served as a member of Bass, Berry & Sims PLC's corporate and securities group and as chair of the firm's healthcare group. During his tenure at Bass, Berry & Sims (1985 to 2006), Mr. Smith represented American Retirement Corporation as outside General Counsel. He currently serves as a member of the board of directors of the Nashville Health Care Council and the National Investment Center for the Seniors Housing & Care Industry (NIC) and as a member of the executive board of the American Seniors Housing Association (ASHA).

Mark W. Ohlendorf has served as our President since June 2013 and as our Chief Financial Officer since March 2007. He previously served as our Co-President from August 2005 until June 2013. Mr. Ohlendorf previously served as Chief Executive Officer and President of Alterra from December 2003 until August 2005. From January 2003 through December 2003, Mr. Ohlendorf served as Chief Financial Officer and President of Alterra, and from 1999 through 2002 he served as Senior Vice President and Chief Financial Officer of Alterra. Mr. Ohlendorf has over 30 years of experience in the health care and long-term care industries, having held leadership positions with such companies as Sterling House Corporation, Vitas Healthcare Corporation and Horizon/CMS Healthcare Corporation. He is a past chairman of the board of directors of the Assisted Living Federation of America.

Gregory B. Richard has served as our Executive Vice President and Chief Operating Officer since June 2013. He previously served as our Executive Vice President – Field Operations from January 2008 until June 2013 and as our Executive Vice President – Operations from July 2006 through December 2007. Previously, Mr. Richard served as Executive Vice President and Chief Operating Officer of American Retirement Corporation since January 2003 and previously served as its Executive Vice President – Community Operations since January 2000. Mr. Richard was formerly with a pediatric practice management company from May 1997 to May 1999, serving as President and Chief Executive Officer from October 1997 to May 1999. Prior to this, Mr. Richard was with Rehability Corporation, a publicly traded outpatient physical rehabilitation service provider, from July 1986 to October 1996, serving as Senior Vice President of Operations and Chief Operating Officer from September 1992 to October 1996.

Bryan D. Richardson became our Executive Vice President in July 2006 and our Chief Administrative Officer in January 2008. Mr. Richardson also served as our Chief Accounting Officer from September 2006 through April 2008. Previously, Mr. Richardson served as Executive Vice President – Finance and Chief Financial Officer of ARC since

April 2003 and previously served as its Senior Vice President – Finance since April 2000. Mr. Richardson was formerly with a national graphic arts company from 1984 to 1999 serving in various capacities, including Senior Vice President of Finance of a digital prepress division from May 1994 to October 1999, and Senior Vice President of Finance and Chief Financial Officer from 1989 to 1994. Mr. Richardson was previously with the national public accounting firm PricewaterhouseCoopers.

Glenn O. Maul became our Executive Vice President and Chief People Officer in March 2013. Previously, Mr. Maul served as Senior Vice President – Human Resources since joining Brookdale in April 2006. Prior to joining Brookdale, he served as Vice President – Human Resources for Sunrise Senior Living. While Mr. Maul has spent most of his career focusing on human resources, his early career included roles in finance and operations. Mr. Maul is certified as a Senior Professional in Human Resources (SPHR).

Tricia A. Conahan became our Executive Vice President and Chief Marketing Officer in April 2014. Previously, she served as Chief Marketing & Sales Officer for Grant Thornton, LLP, a global accounting/consulting firm, from 2010 until March 2014. Ms. Conahan also served as Managing Director of Fernwood Holdings, LLC, a multi-family residential business, from 2009 until 2012. She served as Senior Vice President, Brand & Customer Acquisition for JPMorgan Chase from 2008 through 2009 and as Head of Brand Marketing at ING Americas from 2001 through 2008. From 1999 through 2001, Ms. Conahan served as Chief Marketing Officer for RealEstate.com. Ms. Conahan has also held marketing leadership positions at McGraw-Hill Inc., Time Warner and Times Mirror Magazines.

Kristin A. Ferge became our Executive Vice President and Treasurer in August 2005 and became our Chief Accounting Officer in July 2014. Ms. Ferge also served as our Chief Administrative Officer from March 2007 through December 2007. She previously served as Vice President, Chief Financial Officer and Treasurer of Alterra from December 2003 until August 2005. From April 2000 through December 2003, Ms. Ferge served as Alterra's Vice President of Finance and Treasurer. Prior to joining Alterra, she worked in the audit division of KPMG LLP. Ms. Ferge is a certified public accountant.

George T. Hicks became our Executive Vice President – Finance in July 2006. Previously, Mr. Hicks served as Executive Vice President – Finance and Internal Audit, Secretary and Treasurer of ARC since September 1993. Mr. Hicks had served in various capacities for ARC's predecessors since 1985, including Chief Financial Officer from September 1993 to April 2003 and Vice President – Finance and Treasurer from November 1989 to September 1993.

H. Todd Kaestner became our Executive Vice President – Corporate Development in July 2006. Previously, Mr. Kaestner served as Executive Vice President – Corporate Development of ARC since September 1993. Mr. Kaestner served in various capacities for ARC's predecessors since 1985, including Vice President – Development from 1988 to 1993 and Chief Financial Officer from 1985 to 1988.

Item 1A. Risk Factors.

Risks Related to Emeritus Integration

Failure to successfully integrate Emeritus into our existing business in the expected timeframe could negatively affect our share price, future business and financial results.

The acquisition of Emeritus involves the integration of two companies that had previously operated independently. The success of the acquisition will depend, in large part, on our ability to realize the anticipated benefits, including cost savings and synergies, from combining the businesses of Brookdale and Emeritus. To realize these anticipated benefits, the businesses must be successfully integrated. This integration will be complex and time-consuming. The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in us not achieving the anticipated benefits of the acquisition.

We may incur substantial costs in connection with the integration of Emeritus.

Additional unanticipated costs may be incurred, including, without limitation, unexpected transaction costs and other expenses in the course of the integration of our business and the business of Emeritus. We cannot be certain that the elimination of duplicative costs or the realization of other efficiencies related to the transactions will offset the transaction and integration costs in the near term, or at all.

Risks Related to Our Business

We rely on reimbursement from governmental programs for a portion of our revenues, and will be subject to changes in reimbursement levels, which could adversely affect our results of operations and cash flow.

We rely on reimbursement from governmental programs for a portion of our revenues, and we cannot assure you that reimbursement levels will not decrease in the future, which could adversely affect our results of operations and cash flow. Beginning October 1, 2011, we were impacted by a reduction in the reimbursement rates for Medicare skilled nursing patients and home health patients, as well as a negative change in the allowable method for delivering therapy services to skilled nursing patients (resulting in increased therapy labor expense). In addition, certain per person annual limits on Medicare reimbursement for therapy services became effective in 2006, subject to certain exceptions. These exceptions are currently scheduled to expire on March 31, 2015. If these exceptions are modified or not extended beyond that date, our revenues and net operating income relating to our outpatient therapy services could be materially adversely impacted.

Effective October 1, 2012, certain Medicare Part B therapy services exceeding a specified threshold are subject to a pre-payment manual medical review process. The review process has had an adverse effect on the provision and billing of services for patients and could negatively impact therapist productivity. These new Medicare Part B therapy cap exception requirements, including the applicable pre-approval requirements, could also negatively impact the revenues and net operating income relating to our outpatient therapy services business.

In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. For example, based on current federal law, an automatic 2% reduction in Medicare spending was imposed beginning on March 1, 2013. In 2012 we saw a rate reduction on MPPR, which was further increased effective April 1, 2013. In addition, payments for our outpatient therapy services are tied to Medicare's physician payment fee schedule. By statute, the physician fee schedule is subject to annual automatic adjustment by a SGR formula that has resulted in reductions in reimbursement rates every year since 2002. However, in each case, Congress has acted to suspend or postpone the effect of these automatic reimbursement reductions. If Congress does not extend this relief, as it has done since 2002, or permanently modify the SGR formula by April 1, 2015, payment levels for outpatient therapy services under the physician fee schedule will be reduced at that point by approximately 25%. We cannot predict what action, if any, Congress will take on the physician fee schedule or what future rule changes the CMS will implement. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

The impact of ongoing health care reform efforts on our business cannot accurately be predicted.

The health care industry in the United States is subject to fundamental changes due to ongoing health care reform efforts and related political, economic and regulatory influences. Notably, in March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that expanded health care coverage to millions of previously uninsured people beginning in 2014 and provide for significant changes to the U.S. health care system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various health care providers, including skilled nursing facilities, as well as certain other changes to Medicare payment methodologies. This comprehensive health care legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended.

It is difficult to predict the full impact of the Affordable Care Act due to the law's complexity and current lack of implementing regulations or interpretive guidance, as well our inability to foresee how CMS and other participants in the health care industry will respond to the choices available to them under the law. We also cannot accurately predict whether any new or pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our business. Similarly, while we can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect us and the manner in which we are reimbursed by the federal health care programs, we cannot accurately predict today the impact of those regulations on our business. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act may increase our costs, decrease our revenues, expose us to expanded liability or require us to revise the ways in which we conduct our business.

The Supreme Court's decision upholding the constitutionality of the individual mandate while striking down the provisions linking federal funding of state Medicaid programs with a federally mandated expansion of those programs has not reduced the uncertain impact that the law will have on health care delivery systems over the next decade. We can expect that the federal authorities will continue to implement the law, but, because of the Court's mixed ruling, the implementation will likely take longer than originally expected, with a commensurate increase in the period of uncertainty regarding the law's full long term financial impact on the delivery of and payment for health care. Furthermore, the Supreme Court is expected to hear a challenge to the payment of subsidies to those who purchase health insurance on federally-established exchanges, and we cannot predict the impact that the Court's decision will have on the health care industry.

In addition to its impact on the delivery and payment for health care, the Affordable Care Act and the implementing regulations may result in an increase in our costs to provide health care benefits to our employees. We also may be required to make additional employee-related changes to our business as a result of provisions in the Affordable Care Act impacting the provision of health insurance by employers, which could result in additional expense and adversely affect our results of operations.

Due to the dependency of our revenues on private pay sources, events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees (including downturns in the economy, housing market, consumer confidence or the equity markets and unemployment among resident family members) could cause our occupancy rates, revenues and results of operations to decline.

Costs to seniors associated with independent and assisted living services are not generally reimbursable under government reimbursement programs such as Medicare and Medicaid. Only seniors with income or assets meeting or exceeding the comparable median in the regions where our communities are located typically can afford to pay our monthly resident fees. Economic downturns, softness in the housing market, higher levels of unemployment among resident family members, lower levels of consumer confidence, stock market volatility and/or changes in demographics could adversely affect the ability of seniors to afford our resident fees or entrance fees. If we are unable to retain and/or attract seniors with sufficient income, assets or other resources required to pay the fees associated with independent and assisted living services and other service offerings, our occupancy rates, revenues and results of operations could decline.

The inability of seniors to sell real estate may delay their moving into our communities, which could negatively impact our occupancy rates, revenues, cash flows and results of operations.

Downturns in the housing markets, such as the one we experienced beginning in 2007, could adversely affect the ability (or perceived ability) of seniors to afford our entrance fees and resident fees as our customers frequently use the proceeds from the sale of their homes to cover the cost of our fees. Specifically, if seniors have a difficult time selling their homes, these difficulties could impact their ability to relocate into our communities or finance their stays at our communities with private resources. If volatility in the housing market continues for a protracted period, our occupancy rates, revenues, cash flows and results of operations could be negatively impacted.

Disruptions in the financial markets could affect our ability to obtain financing or to extend or refinance debt as it matures, which could negatively impact our liquidity, financial condition and the market price of our common stock.

In recent years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases resulted in the unavailability of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing (including any refinancing or extension of our existing debt) on reasonable terms, which may negatively affect our business.

As of December 31, 2014, we had three principal corporate-level debt obligations: our $500.0 million secured credit facility, our $316.3 million 2.75% convertible senior notes due 2018 and separate secured and unsecured letter of credit facilities providing for up to $98.7 million of letters of credit in the aggregate. If we are unable to extend (or refinance, as applicable) any of our debt or credit or letter of credit facilities prior to their scheduled maturity dates, our liquidity and financial condition could be adversely impacted. In addition, even if we are able to extend or refinance our other maturing debt or credit or letter of credit facilities, the terms of the new financing may not be as favorable to us as the terms of the existing financing.

A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital, including through the issuance of common stock. Disruptions in the financial markets could have an adverse effect on us and our business. If we are not able to obtain additional financing on favorable terms, we also may have to delay or abandon some or all of our growth strategies, which could adversely affect our revenues and results of operations.

General economic factors could adversely affect our financial performance and other aspects of our business.

General economic conditions, such as inflation, commodity costs, fuel and other energy costs, costs of labor, insurance and healthcare, interest rates, and tax rates, affect our community operating and general and administrative expenses, and we have no control or limited ability to control such factors. In addition, current global economic conditions and uncertainties, the potential for failures or realignments of financial institutions, and the related impact on available credit may affect us and our business partners, landlords, counterparties and residents or prospective residents in an adverse manner including, but not limited to, reducing access to liquid funds or credit, increasing the cost of credit, limiting our ability to manage interest rate risk, increasing the risk that certain of our business partners, landlords or counterparties would be unable to fulfill their obligations to us, and other impacts which we are unable to fully anticipate.

If we are unable to generate sufficient cash flow to cover required interest and lease payments, this would result in defaults of the related debt or leases and cross-defaults under other debt or leases, which would adversely affect our ability to continue to generate income.

We have significant indebtedness and lease obligations, and we intend to continue financing our communities through mortgage financing, long-term leases and other types of financing, including borrowings under our line of credit and future credit facilities we may obtain. We cannot give any assurance that we will generate sufficient cash flow from operations to cover required interest, principal and lease payments. Any non-payment or other default under our financing arrangements could, subject to cure provisions, cause the lender to foreclose upon the community or communities securing such indebtedness or, in the case of a lease, cause the lessor to terminate the lease, each with a consequent loss of income and asset value to us. Furthermore, in some cases, indebtedness is secured by both a mortgage on a community (or communities) and a guaranty by us and/or one or more of our subsidiaries. In the event of a default under one of these scenarios, the lender could avoid judicial procedures required to foreclose on real property by declaring all amounts outstanding under the guaranty immediately due and payable, and requiring the respective guarantor to fulfill its obligations to make such payments. The realization of any of these scenarios would have an adverse effect on our financial condition and capital structure. Additionally, a foreclosure on any of our properties could cause us to recognize taxable income, even if we did not receive any cash proceeds in connection with such foreclosure. Further, because our mortgages and leases generally contain cross-default and cross-collateralization provisions, a default by us related to one community could affect a significant number of our communities and their corresponding financing arrangements and leases.

Our indebtedness and long-term leases could adversely affect our liquidity and our ability to operate our business and our ability to execute our growth strategy.

Our level of indebtedness and our long-term leases could adversely affect our future operations and/or impact our stockholders for several reasons, including, without limitation:

We may have little or no cash flow apart from cash flow that is dedicated to the payment of any interest, principal or amortization required with respect to outstanding indebtedness and lease payments with respect to our long-term leases;

Increases in our outstanding indebtedness, leverage and long-term leases will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;

Increases in our outstanding indebtedness may limit our ability to obtain additional financing for working capital, capital expenditures, expansions, repositionings, new developments, acquisitions, general corporate and other purposes; and

Our ability to pay dividends to our stockholders may be limited.

Our ability to make payments of principal and interest on our indebtedness and to make lease payments on our leases depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business might not continue to generate cash flow at or above current levels. If we are unable to generate sufficient cash flow from operations in the future to service our debt or to make lease payments on our leases, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditures or delay or abandon desirable acquisitions. These measures might not be sufficient to enable us to service our debt or to make lease payments on our leases. The failure to make required payments on our debt or leases or the delay or abandonment of our planned growth strategy could result in an adverse effect on our future ability to generate revenues and sustain profitability. Any contemplated financing, refinancing or sale of assets might not be available on economically favorable terms to us. In addition, certain of our debt agreements contain extension options. If we are not able to satisfy the conditions precedent to exercising these extension options our liquidity and financial condition could be negatively impacted.

Our existing credit facilities, mortgage loans and lease arrangements contain covenants that limit or restrict our operations and activities (including our ability to borrow additional funds and engage in certain transactions without consent of the applicable lender or lessor), and any default under such facilities, loans or arrangements could result in the acceleration of indebtedness, termination of the leases or cross defaults, any of which would negatively impact our liquidity and inhibit our ability to grow our business and increase revenues.

Our outstanding indebtedness and leases contain restrictions and covenants and require us to maintain or satisfy specified financial ratios and coverage tests, including maintaining prescribed net worth levels, leverage ratios and debt service and lease coverage ratios on a consolidated basis, and on a community or communities basis based on the debt or lease securing the communities. In addition, certain of our leases require us to maintain lease coverage ratios on a lease portfolio basis (each as defined in the leases) and maintain stockholders' equity or tangible net worth amounts. The debt service coverage ratios are generally calculated as revenues less operating expenses, including an implied management fee and a reserve for capital expenditures, divided by the debt (principal and interest) or lease payment. Net worth is generally calculated as stockholders' equity as calculated in accordance with GAAP, and in certain circumstances, reduced by intangible assets or liabilities or increased by deferred gains from sale-leaseback transactions and deferred entrance fee revenue. These restrictions and covenants may interfere with our ability to obtain financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenues. If we fail to comply with any of these requirements, then the related indebtedness could become immediately due and payable. We cannot assure you that we could pay this debt if it became due.

Our credit facilities, mortgage loans and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, an event of default under the outstanding indebtedness or leases, subject to cure provisions in certain instances, would give the respective lenders or lessors, as applicable, the right to declare all amounts outstanding to be immediately due and payable, terminate the lease, foreclose on collateral securing the outstanding indebtedness and leases, and restrict our ability to make additional borrowings under the outstanding indebtedness or continue to operate the properties subject to the lease. Certain of our outstanding indebtedness and leases contain cross-default provisions so that a default under certain outstanding indebtedness would cause a default under certain of our leases. Certain of our outstanding indebtedness and leases also limit or restrict, among other things, our ability and our subsidiaries' ability to borrow additional funds, engage in a change in control transaction, dispose of all or substantially all of our or their assets, or engage in mergers or other business combinations without consent of the applicable lender or lessor.

The substantial majority of our lease arrangements are structured as master leases. Under a master lease, we may lease a large number of geographically dispersed properties through an indivisible lease. As a result, it is difficult to restructure the composition of the portfolio or economic terms of the lease without the consent of the landlord. Failure to comply with Medicare or Medicaid provider requirements is a default under several of our master lease and debt financing instruments. In addition, potential defaults related to an individual property may cause a default of an entire master lease portfolio and could trigger cross-default provisions in our outstanding indebtedness and other leases, which would have a negative impact on our capital structure and our ability to generate future revenues, and could interfere with our ability to pursue our growth strategy.

Certain of our master leases and management agreements also contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such agreements. These radius restrictions could negatively affect our expansion, development and acquisition plans.

Mortgage debt and lease obligations expose us to increased risk of loss of property, which could harm our ability to generate future revenues and could have an adverse tax effect.

Mortgage debt and lease obligations increase our risk of loss because defaults on indebtedness secured by properties or pursuant to the terms of the lease may result in foreclosure actions initiated by lenders or lessors and ultimately our loss of the property securing any loans for which we are in default or cause the lessor to terminate the lease. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could negatively impact our earnings and liquidity. Further, our mortgage debt and leases generally contain cross-default and cross-collateralization provisions and a default on one community could affect a significant number of our communities, financing arrangements and leases.

In addition, our leases generally provide for renewal or extension options and, in certain cases, purchase options. These options generally are based upon prescribed formulas but, in certain cases, may be at fair market value. We expect to renew, extend or exercise purchase options with respect to our leases in the normal course of business; however, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising any such renewal, extension or purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. If we are not able to renew or extend our existing leases, or purchase the communities subject to such leases, at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition and results of operation could be adversely affected.

Increases in market interest rates could significantly increase the costs of our unhedged debt and lease obligations, which could adversely affect our liquidity and earnings.

Our unhedged floating-rate debt and lease payment obligations and any unhedged floating-rate debt incurred in the future, exposes us to interest rate risk. Therefore, increases in prevailing interest rates could increase our payment obligations, which would negatively impact our liquidity and earnings.

We have a history of losses and we may not be able to achieve profitability.

We have incurred net losses in every year since our formation in June 2005. Given our history of losses, there can be no assurance that we will be able to achieve and/or maintain profitability in the future. If we do not effectively manage our cash flow and combined business operations going forward or otherwise achieve profitability, our stock price would be adversely affected.

If we do not effectively manage our growth and successfully integrate new or recently-acquired or initiated operations into our existing operations, our business and financial results could be adversely affected.

Our growth has and will continue to place significant demands on our current management resources. Our ability to manage our growth effectively and to successfully integrate new or recently-acquired or initiated operations (including expansions, developments, acquisitions and the expansion of our ancillary services program) into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. There can be no assurance that we will be successful in attracting qualified individuals to the extent necessary, and management may expend significant time and energy attracting the appropriate personnel to manage assets we purchase in the future and our expansion and development activities. Also, the additional communities and expansion activities will require us to maintain consistent quality control measures that allow our management to effectively identify deviations that result in delivering care and services that are substandard, which may result in litigation and/or loss of licensure or certification. If we are unable to manage our growth effectively, successfully integrate new or recently-acquired or initiated operations into our existing business, or maintain consistent quality control measures, our business, financial condition and results of operations could be adversely affected.

Delays in obtaining regulatory approvals could hinder our plans to expand our ancillary services program, which could negatively impact our anticipated revenues, results of operations and cash flows.

We plan to continue to expand our offering of ancillary services (including therapy, home health and hospice) to additional communities. In the current environment, it is difficult to obtain certain required regulatory approvals. Delays in obtaining required regulatory approvals could impede our ability to expand to additional communities in accordance with our plans, which could negatively impact our anticipated revenues, results of operations and cash flows.

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

We are currently working on projects that will expand, reposition or redevelop a number of our existing senior living communities over the next several years. These projects are in various stages of development and are subject to a number of factors over which we have little or no control. These factors include the necessity of arranging separate leases, mortgage loans or other financings to provide the capital required to complete these projects; difficulties or delays in obtaining zoning, land use, building, occupancy, licensing, certificate of need and other required governmental permits and approvals; failure to complete construction of the projects on budget and on schedule; failure of third-party contractors and subcontractors to perform under their contracts; shortages of labor or materials that could delay projects or make them more expensive; adverse weather conditions that could delay completion of projects; increased costs resulting from general economic conditions or increases in the cost of materials; and increased costs as a result of changes in laws and regulations. We cannot assure you that we will elect to undertake or complete all of our proposed expansion, repositioning and development projects, or that we will not experience delays in completing those projects. In addition, we may incur substantial costs prior to achieving stabilized occupancy for each such project and cannot assure you that these costs will not be greater than we have anticipated. We also cannot assure you that any of our expansion, repositioning or development projects will be economically successful. Our failure to achieve our expansion and development plans could adversely impact our growth objectives, and our anticipated revenues and results of operations.

We may encounter difficulties in acquiring communities at attractive prices or integrating acquisitions with our operations, which may adversely affect our operations and financial condition.

We will continue to selectively target strategic acquisitions as opportunities arise. To the extent we do identify and complete any future acquisition opportunities, the process of identifying potential acquisition candidates, completing acquisition transactions and integrating acquired communities into our existing operations may result in unforeseen operating difficulties, divert managerial attention or require significant financial or other resources. These acquisitions and other future acquisitions may require us to incur additional indebtedness and contingent liabilities, and may result in unforeseen expenses or compliance issues, which may limit our revenue growth, cash flows, and our ability to achieve profitability. Moreover, any future acquisitions may not generate any additional income for us or provide any benefit to our business. In addition, we cannot assure you that we will be able to locate and acquire communities at attractive prices in locations that are compatible with our strategy or that competition for the acquisition of communities will not increase. Finally, when we are able to locate communities and enter into definitive agreements to acquire or lease them, we cannot assure you that the transactions will be completed. Failure to complete transactions after we have entered into definitive agreements may result in significant expenses to us.

Unforeseen costs associated with the acquisition of communities could reduce our future profitability.

Our growth strategy contemplates selected future acquisitions of existing senior living operating companies and communities. Despite our extensive underwriting and due diligence procedures, communities that we have previously acquired or may acquire in the future may generate unexpectedly low or no returns or may not meet a risk profile that our investors find acceptable. In addition, we might encounter unanticipated difficulties and expenditures relating to any of the acquired communities, including contingent liabilities, or newly acquired communities might require significant management attention that would otherwise be devoted to our ongoing business. For example, a community may require capital expenditures in excess of budgeted amounts, or it may experience management turnover that is higher than we project. These costs may negatively affect our future profitability.

Competition for the acquisition of strategic assets from buyers with greater financial resources or lower costs of capital than us or that have lower return expectations than we do could limit our ability to compete for strategic acquisitions and therefore to grow our business effectively.

Several publicly-traded and non-traded real estate investment trusts, or REITs, have similar asset acquisition objectives as we do, along with greater financial resources and/or lower costs of capital than we are able to obtain. This may increase competition for acquisitions that would be suitable to us, making it more difficult for us to compete and successfully implement our growth strategy. There is significant competition among potential acquirers in the senior living industry, including publicly-traded and non-traded REITs, and there can be no assurance that we will be able to successfully implement our growth strategy or complete acquisitions, which could limit our ability to grow our business effectively. Partially as a result of tax law changes enacted through RIDEA, we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties.

We may need additional capital to fund our operations and finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow.

Continued expansion of our business through the expansion, redevelopment and repositioning of our existing communities, the development of new communities and the acquisition of existing senior living operating companies and communities will require additional capital, particularly if we were to accelerate our expansion and acquisition plans. Financing may not be available to us or may be available to us only on terms that are not favorable. In addition, certain of our outstanding indebtedness and long-term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to delay or abandon some or all of our growth strategies. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock.

In addition, we are heavily dependent on mortgage financing provided by Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, the "Agency Lenders"). The Agency Lenders are currently operating under a conservatorship begun in 2008, conducting business under the direction of the Federal Housing Finance Agency. Reform efforts related to the Agency Lenders may make such financing sources less available or unavailable in the future and may cause us to seek alternative sources of potentially less attractive financing. There can be no assurance that such alternative sources will be available.

Our investment in our entrance fee CCRC venture with HCP is susceptible to risks associated with the lifecare benefits offered to the residents of the venture's lifecare entrance fee communities, and we are also susceptible to such risks for our owned and/or operated entrance fee CCRCs.

As of December 31, 2014, we managed lifecare entrance fee communities as part of our entrance fee CCRC venture with HCP, and we owned and/or operated three other lifecare communities. Residents of these communities typically receive a limited lifecare benefit and pay an upfront entrance fee upon occupancy, of which a portion is generally refundable, with an additional monthly service fee while living in the community. This limited lifecare benefit is typically (a) a certain number of free days in the community's health center during the resident's lifetime, (b) a discounted rate for such services, or (c) a combination of the two. The lifecare benefit varies based upon the extent to which the resident's entrance fee is refundable. The pricing of entrance fees, refundability provisions, monthly service fees, and lifecare benefits are determined utilizing actuarial projections of the expected morbidity and mortality of the resident population. In the event the entrance fees and monthly service payments established for these communities are not sufficient to cover the cost of lifecare benefits granted to residents, our interest in the results of operations and financial condition of these communities and the venture could be adversely affected.

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

Early termination or non-renewal of our management agreements could cause a loss in revenues.

We operate certain of our communities pursuant to management agreements. In some of these cases, the controlling financial interest in the community is held by third parties and, in other cases, the community is owned by an unconsolidated venture in which we have an ownership interest. At December 31, 2014, we managed 161 communities, representing 25.0% of our capacity, for third parties or unconsolidated ventures. We obtained a significant portion of our management agreements as a result of our acquisition of Horizon Bay in 2011 and through our entry into ventures with HCP in 2014. The majority of our management agreements are long-term agreements. In most cases, either party to the agreements may terminate upon the occurrence of an event of default caused by the other party. In addition, in some cases, subject to our rights, if any, to cure deficiencies, community owners may terminate us as manager if any licenses or certificates necessary for operation are revoked, if we do not satisfy certain designated performance thresholds or if the community is sold to an unrelated third party (in which case we may be entitled to receive a contractual termination fee). Also, in some instances, a community owner may terminate the management agreement relating to a particular community if we are in default under other management agreements relating to other communities owned by the same owner or its affiliates. Certain of our management agreements, both with unconsolidated ventures and with entities owned by third parties, provide that an event of default under the debt instruments applicable to the ventures or the entities owned by third parties that is caused by us may also be considered an event of default by us under the relevant management agreement, giving the non-Brookdale party to the management agreement the right to pursue the remedies provided for in the management agreement, potentially including termination of the management agreement. Further, in the event of default on a loan, the lender may have the ability to terminate us as manager. With respect to communities held in unconsolidated ventures, in some cases, the management agreement can be terminated in connection with the sale by the venture partner of its interest in the venture or the sale of properties by the venture. Early termination of our management agreements or non-renewal or renewal on less-favorable terms could cause a loss in revenues and could negatively impact our results of operations and cash flows.

The geographic concentration of our communities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas, resulting in a decrease in our revenues or an increase in our costs, or otherwise negatively impacting our results of operations.

We have a high concentration of communities in various geographic areas, including the states of Florida, Texas, California, Ohio and Washington. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to assisted living communities, acts of nature and other factors that may result in a decrease in demand for senior living services in these states could have an adverse effect on our revenues, costs and results of operations. In addition, given the location of our communities, we are particularly susceptible to revenue loss, cost increase or damage caused by other severe weather conditions or natural disasters such as hurricanes, earthquakes or tornados. Any significant loss due to a natural disaster may not be covered by insurance and may lead to an increase in the cost of insurance.

Termination of our resident agreements and vacancies in the living spaces we lease could adversely affect our revenues, earnings and occupancy levels.

State regulations governing assisted living communities require written resident agreements with each resident. Several of these regulations also require that each resident have the right to terminate the resident agreement for any reason on reasonable notice. Consistent with these regulations, many of our assisted living resident agreements allow residents to terminate their agreements upon 0 to 30 days' notice. Unlike typical apartment leasing or independent living arrangements that involve lease agreements with specified leasing periods of up to a year or longer, in many instances we cannot contract with our assisted living residents to stay in those living spaces for longer periods of time. Our retirement center resident agreements generally provide for termination of the lease upon death or allow a resident to terminate his or her lease upon the need for a higher level of care not provided at the community. If multiple residents terminate their resident agreements at or around the same time, our revenues, earnings and occupancy levels could be adversely affected. In addition, because of the demographics of our typical residents, including age and health, resident turnover rates in our communities are difficult to predict. As a result, the living spaces we lease may be unoccupied for a period of time, which could adversely affect our revenues and earnings.

Increases in the cost and availability of labor, including increased competition for or a shortage of skilled personnel or increased union activity, would have an adverse effect on our profitability and/or our ability to conduct our business operations.

Our success depends on our ability to retain and attract skilled management personnel who are responsible for the day-to-day operations of each of our communities. Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of care, social services and financial performance. Depending upon the size of the community, each Executive Director is supported by a community staff member who is directly responsible for day-to-day care of the residents and either community staff or regional support to oversee the community's marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, healthcare services, therapy services, activities, housekeeping and engineering. We compete with various health care service providers, including other senior living providers, in retaining and attracting qualified and skilled personnel. Increased competition for or a shortage of nurses, therapists or other trained personnel, or general inflationary pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge to our residents or our service charges, which would negatively impact our results of operations. Turnover rates and the magnitude of the shortage of nurses, therapists or other trained personnel varies substantially from market to market. If we fail to attract and retain qualified and skilled personnel, our ability to conduct our business operations effectively, our ability to implement our growth strategy, and our overall operating results could be harmed.

In addition, efforts by labor unions to unionize any of our community personnel could divert management attention, lead to increases in our labor costs and/or reduce our flexibility with respect to certain workplace rules. The new election rules recently promulgated by the National Labor Relations Board will substantially change – and expedite – the existing union election process, thereby limiting the time available for us to attempt to persuade employees to vote against representation. Unless enjoined by a federal court, the rules go into effect April 14, 2015. If we experience an increase in organizing activity, if onerous collective bargaining agreement terms are imposed upon us, or if we otherwise experience an increase in our staffing and labor costs, our profitability and cash flows from operations would be negatively affected.

Departure of our key officers could harm our business.

We are dependent on the efforts of our executive officers. The unforeseen loss or limited availability of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have an adverse effect on our business, results of operations and financial condition and be negatively perceived in the capital markets.

Environmental contamination at any of our communities could result in substantial liabilities to us, which may exceed the value of the underlying assets and which could materially and adversely affect our liquidity and earnings.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property, such as us, may be held liable in certain circumstances for the costs of investigation, removal or remediation of, or related to the release of, certain hazardous or toxic substances, that could be located on, in, at or under a property, regardless of how such materials came to be located there. The cost of any required investigation, remediation, removal, mitigation, compliance, fines or personal or property damages and our liability therefore could exceed the property's value and/or our assets' value. In addition, the presence of such substances, or the failure to properly dispose of or remediate the damage caused by such substances, may adversely affect our ability to sell such property, to attract additional residents and retain existing residents, to borrow using such property as collateral or to develop or redevelop such property. In addition, such laws impose liability, which may be joint and several, for investigation, remediation, removal and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances as well as without regard to whether such release or disposal was in compliance with law at the time it occurred. Although we do not believe that we have incurred such liabilities as would have a material adverse effect on our business, financial condition and results of operations, we could be subject to substantial future liability for environmental contamination that we have no knowledge about as of the date of this report and/or for which we may not be at fault.

Failure to comply with existing environmental laws could result in increased expenditures, litigation and potential loss to our business and in our asset value, which would have an adverse effect on our earnings and financial condition.

Our operations are subject to regulation under various federal, state and local environmental laws, including those relating to: the handling, storage, transportation, treatment and disposal of medical waste products generated at our communities; identification and warning of the presence of asbestos-containing materials in buildings, as well as removal of such materials; the presence of other substances in the indoor environment; and protection of the environment and natural resources in connection with development or construction of our properties.

Some of our communities generate infectious or other hazardous medical waste due to the illness or physical condition of the residents. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste, but the use of such waste management companies does not immunize us from alleged violations of such laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to cleanup disposal sites at which such wastes have been disposed.

Federal regulations require building owners and those exercising control over a building's management to identify and warn their employees and certain other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their buildings. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos-containing materials and potential asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials.

The presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may lead to the incurrence of costs for remediation, mitigation or the implementation of an operations and maintenance plan and may result in third party litigation for personal injury or property damage. Furthermore, in some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract residents and could adversely affect a community's market value.

Although we believe that we are currently in material compliance with applicable environmental laws, if we fail to comply with such laws in the future, we would face increased expenditures both in terms of fines and remediation of the underlying problem(s), potential litigation relating to exposure to such materials, and potential decrease in value to our business and in the value of our underlying assets. Therefore, our failure to comply with existing environmental laws would have an adverse effect on our earnings, our financial condition and our ability to pursue our growth strategy.

We are unable to predict the future course of federal, state and local environmental regulation and legislation. Changes in the environmental regulatory framework (including legislative or regulatory efforts designed to address climate change, such as the proposed "cap and trade" legislation) could have a material adverse effect on our business. In addition, because environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

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

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

Risks Related to Pending Litigation

Complaints filed against us could, if adversely determined, subject us to a material loss.

We have been and are currently involved in litigation and claims incidental to the conduct of our business that are comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. Similarly, the senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in litigation related to regulatory compliance matters. As a result, we maintain general liability and professional liability insurance policies in amounts and with coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. Our current policies are written on a claims-made basis and provide for deductibles for each claim. Accordingly, we are, in effect, self-insured for claims that are less than the deductible amounts. If we experience a greater number of losses than we anticipate, or if certain claims are not ultimately covered by insurance, our results of operation and financial condition could be adversely affected.

Risks Related to Our Industry

We face periodic and routine reviews, audits and investigations under our contracts with government agencies, and these audits could have adverse findings that may negatively impact our business.

As a result of our participation in the Medicare and Medicaid programs, we are subject to various governmental reviews, audits and investigations to verify our compliance with these programs and applicable laws and regulations. We also are subject to audits under various government programs, including but not limited to the RAC and ZPIC programs, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments under the Medicare program. Our costs to respond to and defend reviews, audits and investigations may be significant and could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows. Moreover, an adverse review, audit or investigation could result in:

required refunding or retroactive adjustment of amounts we have been paid pursuant to the federal or state programs;

state or federal agencies imposing fines, penalties and other sanctions on us;

loss of our right to participate in the Medicare program or state programs;

damage to our business and reputation in various markets; or

significant investment of time and money even if eventually favorably determined.

These results could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows.

The cost and difficulty of complying with increasing and evolving regulation and enforcement could have an adverse effect on our business operations and profits.

The regulatory environment surrounding the senior living industry continues to evolve and intensify in the amount and type of laws and regulations affecting it, many of which vary from state to state. In addition, many senior living communities are subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. In several of the states in which we operate or may operate, we are prohibited from providing certain higher levels of senior care services without first obtaining the appropriate licenses. Also, in several of the states in which we operate or intend to operate, assisted living communities and/or skilled nursing facilities require a certificate of need before the community can be opened or the services at an existing community can be expanded. Furthermore, federal, state and local officials are increasingly focusing their efforts on enforcement of these laws, particularly with respect to large for-profit, multi-community providers like us. These requirements and the increased enforcement thereof, could affect our ability to expand into new markets, to expand our services and communities in existing markets and, if any of our presently licensed communities were to operate outside of its licensing authority, may subject us to penalties including closure of the community. Future regulatory developments as well as mandatory increases in the scope and severity of deficiencies determined by survey or inspection officials could cause our operations to suffer. We are unable to predict the future course of federal, state and local legislation or regulation. If regulatory requirements increase, whether through enactment of new laws or regulations or changes in the enforcement of existing rules, our earnings and operations could be adversely affected.

The intensified regulatory and enforcement environment impacts providers like us because of the increase in the number of inspections or surveys by governmental authorities and consequent citations for failure to comply with regulatory requirements. We also expend considerable resources to respond to federal and state investigations or other enforcement action. From time to time in the ordinary course of business, we receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. Although most inspection deficiencies are resolved through an agreed-to plan of corrective action, the reviewing agency typically has the authority to take further action against a licensed or certified facility, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal health care programs or imposition of other sanctions, including criminal penalties. Furthermore, certain states may allow citations in one community to impact other communities in the state. Revocation of a license at a given community could therefore impact our ability to obtain new licenses or to renew existing licenses at other communities, which may also cause us to be in default under our leases, trigger cross-defaults, trigger defaults under certain of our credit agreements or adversely affect our ability to operate and/or obtain financing in the future. If a state were to find that one community's citation would impact another of our communities, this would also increase costs and result in increased surveillance by the state survey agency. To date, none of the deficiency reports received by us has resulted in a suspension, fine or other disposition that has had a material adverse effect on our revenues. However, the failure to comply with applicable legal and regulatory requirements in the future could result in a material adverse effect to our business as a whole.

There are various extremely complex federal and state laws governing a wide array of referral relationships and arrangements and prohibiting fraud by health care providers, including those in the senior living industry, and governmental agencies are devoting increasing attention and resources to such anti-fraud initiatives. Some examples are the Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Balanced Budget Act of 1997, and the False Claims Act, which gives private individuals the ability to bring an action on behalf of the federal government. The violation of any of these laws or regulations may result in the imposition of fines or other penalties that could increase our costs and otherwise jeopardize our business. Under the Deficit Reduction Act of 2005, or DRA 2005, every entity that receives at least $5.0 million annually in Medicaid payments must have established written policies for all employees, contractors or agents, providing detailed information about false claims, false statements and whistleblower protections under certain federal laws, including the federal False Claims Act, and similar state laws. Failure to comply with this new compliance requirement may potentially give rise to potential liability. DRA 2005 also creates an incentive for states to enact false claims laws that are comparable to the federal False Claims Act.

Additionally, we provide services and operate communities that participate in federal and/or state health care reimbursement programs, which makes us subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state and we cannot be sure that these laws will be interpreted consistently or in keeping with past practice. Violation of any of these laws can result in loss of licensure, civil or criminal penalties and exclusion of health care providers or suppliers from furnishing covered items or services to beneficiaries of the applicable federal and/or state health care reimbursement program. Loss of licensure may also cause us to default under our leases and/or trigger cross-defaults.

We are also subject to certain federal and state laws that regulate financial arrangements by health care providers, such as the Federal Anti-Kickback Law, the Stark laws and certain state referral laws. Authorities have interpreted the Federal Anti-Kickback Law very broadly to apply to many practices and relationships between health care providers and sources of patient referral. This could result in criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as Medicare and Medicaid, which may also cause us to default under our leases and/or trigger cross-defaults. Adverse consequences may also result if we violate federal Stark laws related to certain Medicare and Medicaid physician referrals. While we endeavor to comply with all laws that regulate the licensure and operation of our business, it is difficult to predict how our revenues could be affected if we were subject to an action alleging such violations.

Compliance with the Americans with Disabilities Act, Fair Housing Act and fire, safety and other regulations may require us to make unanticipated expenditures, which could increase our costs and therefore adversely affect our earnings and financial condition.

All of our communities are required to comply with the Americans with Disabilities Act, or ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial properties," but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of government fines or an award of damages to private litigants.

We must also comply with the Fair Housing Act, which prohibits us from discriminating against individuals on certain bases in any of our practices if it would cause such individuals to face barriers in gaining residency in any of our communities. Additionally, the Fair Housing Act and other state laws require that we advertise our services in such a way that we promote diversity and not limit it. We may be required, among other things, to change our marketing techniques to comply with these requirements.

In addition, we are required to operate our communities in compliance with applicable fire and safety regulations, building codes and other land use regulations and food licensing or certification requirements as they may be adopted by governmental agencies and bodies from time to time. Like other health care facilities, senior living communities are subject to periodic survey or inspection by governmental authorities to assess and assure compliance with regulatory requirements. Surveys occur on a regular (often annual or bi-annual) schedule, and special surveys may result from a specific complaint filed by a resident, a family member or one of our competitors. We may be required to make substantial capital expenditures to comply with those requirements.

Capital expenditures we have made to comply with any of the above to date have been immaterial, however, the increased costs and capital expenditures that we may incur in order to comply with any of the above would result in a negative effect on our earnings and financial condition.

Significant legal actions and liability claims against us in excess of insurance limits could subject us to increased operating costs and substantial uninsured liabilities, which may adversely affect our financial condition and operating results.

The senior living and healthcare services businesses entails an inherent risk of liability, particularly given the demographics of our residents, including age and health, and the services we provide. In recent years, we, as well as other participants in our industry, have been subject to an increasing number of claims and lawsuits alleging that our services have resulted in resident injury or other adverse effects. Many of these lawsuits involve large damage claims and significant legal costs. Many states continue to consider tort reform and how it will apply to the senior living industry. We may continue to be faced with the threat of large jury verdicts in jurisdictions that do not find favor with large senior living or healthcare providers. We maintain liability insurance policies in amounts and with the coverage and deductibles we believe are adequate based on the nature and risks of our business, historical experience and industry standards. We have formed a wholly-owned "captive" insurance company for the purpose of insuring certain portions of our risk retention under our general and professional liability insurance programs. There can be no guarantee that we will not have any claims that exceed our policy limits in the future.

If a successful claim is made against us and it is not covered by our insurance or exceeds the policy limits, our financial condition and results of operations could be materially and adversely affected. In some states, state law may prohibit or limit insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation. As a result, we may be liable for punitive damage awards in these states that either are not covered or are in excess of our insurance policy limits. Also, the above deductibles, or self-insured retention, are accrued based on an actuarial projection of future liabilities. If these projections are inaccurate and if there are an unexpectedly large number of successful claims that result in liabilities in excess of our self-insured retention, our operating results could be negatively affected. Claims against us, regardless of their merit or eventual outcome, also could have a material adverse effect on our ability to attract residents or expand our business and could require our management to devote time to matters unrelated to the day-to-day operation of our business. We also have to renew our policies every year and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases. There can be no assurance that we will be able to obtain liability insurance in the future or, if available, that such coverage will be available on acceptable terms.

Overbuilding and increased competition may adversely affect our ability to generate and increase our revenues and profits and to pursue our business strategy.

The senior living industry is highly competitive, and we expect that it may become more competitive in the future. We compete with numerous other companies that provide long-term care alternatives such as home healthcare agencies, therapy services, life care at home, community-based service programs, retirement communities, convalescent centers and other independent living, assisted living and skilled nursing providers, including not-for-profit entities. In general, regulatory and other barriers to competitive entry in the independent living and assisted living sectors of the senior living industry are not substantial. We have experienced and expect to continue to experience increased competition in our efforts to acquire and operate senior living communities. Consequently, we may encounter increased competition that could limit our ability to attract new residents, raise resident fees or expand our business, which could have a material adverse effect on our revenues and earnings.

In addition, overbuilding in the late 1990's in the senior living industry reduced the occupancy rates of many newly constructed buildings and, in some cases, reduced the monthly rate that some newly built and previously existing communities were able to obtain for their services. This resulted in lower revenues for certain of our communities during that time. While we believe that overbuilt markets have stabilized and should continue to be stabilized for the immediate future, we cannot be certain that the effects of this period of overbuilding will not affect our occupancy and resident fee rate levels in the future, nor can we be certain that another period of overbuilding in the future will not have the same effects. Moreover, while we believe that the new construction dynamics and the competitive environments in the states in which we operate are substantially similar to the national market, taken as a whole, if the dynamics or environment were to be significantly adverse in one or more of those states, it would have a disproportionate effect on our revenues (due to the large portion of our revenues that are generated in those states).

Risks Related to Our Organization and Structure

Anti-takeover provisions in our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that you may consider favorable or prevent the removal of our current board of directors and management.

Certain provisions of our amended and restated certificate of incorporation and our amended and restated by-laws may discourage, delay or prevent a merger or acquisition that you may consider favorable or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including:

a staggered board of directors consisting of three classes of directors, each of whom serve three-year terms;

removal of directors only for cause, and only with the affirmative vote of at least 80% of the voting interest of stockholders entitled to vote;

blank-check preferred stock;

provisions preventing stockholders from calling special meetings;

advance notice requirements for stockholders with respect to director nominations and actions to be taken at annual meetings; and

no provision in our amended and restated certificate of incorporation for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election.

Additionally, our amended and restated certificate of incorporation provides that Section 203 of the Delaware General Corporation Law, which restricts certain business combinations with interested stockholders in certain situations, will not apply to us.

We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

variations in our quarterly operating results;

changes in our earnings estimates;

the contents of published research reports about us or the senior living industry or the failure of securities analysts to cover our common stock;

additions or departures of key management personnel;

any increased indebtedness we may incur or lease obligations we may enter into in the future;

actions by institutional stockholders;

changes in market valuations of similar companies;

announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

speculation or reports by the press or investment community with respect to us or the senior living industry in general;

increases in market interest rates that may lead purchasers of our shares to demand a higher yield;

changes or proposed changes in laws or regulations affecting the senior living industry or enforcement of these laws and regulations, or announcements relating to these matters; and

general market and economic conditions.

Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by offering additional debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes, convertible securities, series of preferred shares or shares of our common stock. Upon liquidation, holders of our debt securities and preferred stock, and lenders with respect to other borrowings, would receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the economic and voting rights of our existing stockholders or reduce the market price of our common stock, or both. Shares of our preferred stock, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their share holdings in us.

We may issue all of the shares of our common stock that are authorized but unissued (and not otherwise reserved for issuance under our stock incentive or purchase plans or pursuant to the conversion or exercise features of our convertible senior notes and warrants) without any action or approval by our stockholders. We intend to continue to pursue selected acquisitions of senior living communities and may issue shares of common stock in connection with these acquisitions. Any shares issued in connection with our acquisitions or otherwise would dilute the holdings of our current stockholders.

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.

At December 31, 2014, approximately 183.5 million shares of our common stock were outstanding (excluding unvested restricted shares). All of the shares of our common stock are freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, or any shares otherwise subject to the limitations of Rule 144.

In addition, as of December 31, 2014, approximately 3.6 million shares of restricted common stock were outstanding under our 2014 Omnibus Incentive Plan and our Omnibus Stock Incentive Plan, and we had availability to issue approximately 8.5 million additional shares under our 2014 Omnibus Incentive Plan, our Associate Stock Purchase Plan, and our Director Stock Purchase Plan. The shares of our common stock issued or issuable pursuant to these plans are or will be registered under the Securities Act, and once any restrictions imposed on the shares and options granted under these plans expire, such shares of common stock will be available for sale into the public markets.

Our ability to use net operating loss carryovers to reduce future tax payments will be limited.

Section 382 of the Internal Revenue code contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of 50% of its stock over a three-year period, to utilize its net operating loss carryforward and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes involving stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company. We have determined that an ownership change occurred within the second quarter of 2010, and, therefore, losses carried into the change period have been subject to an annual limitation. The annual limitation is equal to the product of the applicable long term tax exempt rate and the value of our stock immediately before the ownership change, adjusted for certain items. The annual limitation may be increased by certain built-in gains existing at the time of change. The acquisition of Emeritus Corporation also resulted in an ownership change and created an annual limitation on Emeritus' net operating losses.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Facilities

At December 31, 2014, we operated 1,143 communities across 46 states, with the capacity to serve approximately 111,000 residents. Of the communities we operated at December 31, 2014, we owned 399, we leased 583 pursuant to operating, capital and financing leases, and 161 were managed by us for third parties or unconsolidated ventures in which we have an ownership interest.

The following table sets forth certain information regarding our communities at December 31, 2014:

		Occupancy	Ownership Status			
State	Units	Rate(1)(2)	Owned	Leased	Managed	Total
Florida	17,716	86%	56	50	32	138
Texas	14,348	87%	57	44	30	131
California	11,037	89%	27	56	11	94
Ohio	5,014	87%	26	28	6	60
Washington	4,986	90%	14	38	3	55
Colorado	4,642	86%	10	20	9	39
Arizona	4,112	86%	16	16	5	37
Illinois	3,930	90%	5	10	6	21
North Carolina	3,851	90%	10	52	1	63
Oregon	3,301	94%	8	32	5	45
Michigan	2,912	86%	10	24	3	37
Virginia	2,598	85%	9	7	3	19
New York	2,551	87%	17	15	3	35
Tennessee	2,331	89%	15	16	4	35
Indiana	1,994	88%	10	11	3	24
South Carolina	1,937	89%	5	20	0	25
Georgia	1,879	88%	9	14	4	27
Oklahoma	1,747	87%	10	21	2	33
Kansas	1,607	92%	10	12	2	24
Massachusetts	1,585	79%	3	5	5	13
New Jersey	1,544	87%	7	10	2	19
Pennsylvania	1,378	85%	10	3	1	14
Alabama	1,365	94%	6	3	1	10
Rhode Island	1,184	87%	1	4	4	9
Missouri	1,181	91%	2	1	2	5
Minnesota	935	88%	3	15	1	19
Kentucky	913	90%	1	4	1	6
Connecticut	893	82%	2	7	1	10
Wisconsin	805	87%	6	12	2	20
New Mexico	796	77%	2	4	1	7
Mississippi	682	92%	5	4	0	9
Nevada	677	85%	2	5	1	8
Maryland	614	85%	1	3	3	7
Louisiana	611	86%	6	1	0	7
Idaho	605	84%	7	1	0	8
Arkansas	495	88%	4	0	1	5
Nebraska	456	86%	0	5	0	5

Utah	368	88%	0	2	2	4
West Virginia	271	89%	1	2	0	3
Montana	238	93%	1	2	0	3
Delaware	200	95%	2	1	0	3
Iowa	182	80%	1	0	1	2
Wyoming	112	88%	0	2	0	2
Vermont	101	94%	1	0	0	1
New Hampshire	90	97%	1	0	0	1
North Dakota	85	86%	0	1	0	1
Total	110,859	88%	399	583	161	1,143

(1) Includes the impact of managed properties.

(2) Represents occupancy at December 31, 2014.

Substantially all of our owned properties are subject to mortgages.

Corporate Offices

Our main corporate offices are all leased, including our 136,412 square foot headquarters facility in Brentwood, Tennessee (a suburb of Nashville) and our 158,201 square foot shared service facility in Milwaukee, Wisconsin. We also lease smaller regional support offices in Chicago, Seattle and Tampa.

Item 3. Legal Proceedings.

The information contained in Note 19 to the consolidated financial statements contained in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

Stockholder Litigation

In connection with our acquisition of Emeritus, three purported class action lawsuits relating to the Agreement and Plan of Merger, dated as of February 20, 2014 (the "Merger Agreement"), by and among Brookdale Senior Living Inc., Emeritus and Broadway Merger Sub Corporation ("Merger Sub"), were filed on behalf of Emeritus shareholders in the Superior Court of King County, Washington against Emeritus, members of the Emeritus board of directors, Brookdale Senior Living Inc. and Merger Sub (the "Defendants"), which lawsuits were subsequently consolidated into a single action captioned In re Emeritus Corp. Shareholder Litigation, No. 14-2-06385-7 SEA (the "Washington Action"). The complaints allege that the Emeritus board of directors breached its fiduciary duties to Emeritus' shareholders by, among other things, failing to maximize shareholder value in connection with the merger or to engage in a fair sale process before approving the merger and by failing to disclose all material information concerning the merger to Emeritus' shareholders. The three complaints also allege that Brookdale Senior Living Inc., Emeritus and Merger Sub aided and abetted Emeritus' board of directors' alleged breaches of fiduciary duties. The complaints seek, among other things, injunctive relief, including rescission of the merger, and damages, including counsel fees and expenses. On June 26, 2014, the Defendants entered into a memorandum of understanding (the "Memorandum of Understanding") with respect to a proposed settlement of the Washington Action, pursuant to which the parties agreed, among other things, that Brookdale Senior Living Inc. and Emeritus would make certain supplemental disclosures related to the proposed merger, which supplemental disclosures were made by Brookdale Senior Living Inc. in a Current Report on Form 8-K filed with the Securities and Exchange Commission on June 27, 2014 and incorporated by reference into Brookdale Senior Living Inc.'s Registration Statement on Form S-4 and the joint proxy statement/prospectus of Brookdale Senior Living Inc. and Emeritus included therein. The parties have agreed to use their collective best efforts to obtain final approval of the settlement and the dismissal of the Washington Action with prejudice. The parties have finalized a stipulation of settlement, which is subject to customary conditions, including final court approval following notice to Emeritus' shareholders. As explained in the Memorandum of Understanding, if the settlement is finally approved by the Washington court, the parties anticipate that it will resolve and release all claims in all actions pursuant to terms that will be disclosed to former Emeritus shareholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel in the Washington Action will file a petition in the Washington court for an award of attorneys' fees and expenses to be paid by Brookdale Senior Living Inc. Brookdale Senior Living Inc. will pay or cause to be paid any attorneys' fees and expenses awarded by the Washington court. There can be no assurance that the Washington court will approve the settlement. In such event, the proposed settlement as contemplated by the Memorandum of Understanding may be terminated.

Item 4. Mine Safety Disclosures.

Not applicable.
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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol "BKD". The following table sets forth the range of high and low sales prices of our common stock for each quarter for the last two fiscal years.

	Fiscal 2014	
	High	Low
First Quarter	$34.37	$26.11
Second Quarter	$34.80	$29.50
Third Quarter	$36.18	$32.02
Fourth Quarter	$37.03	$30.12

	Fiscal 2013	
	High	Low
First Quarter	$29.92	$25.04
Second Quarter	$30.31	$25.31
Third Quarter	$30.65	$24.42
Fourth Quarter	$30.00	$25.46

The closing sale price of our common stock as reported on the NYSE on February 19, 2015 was $36.90 per share. As of that date, there were approximately 378 holders of record of our common stock.

Dividend Policy

On December 30, 2008, our Board of Directors voted to suspend our quarterly cash dividend indefinitely and no dividends were declared since that time. Although we anticipate that, in the longer-term, we may pay regular quarterly dividends to the holders of our common stock, over the near term we are focused on deploying capital in the growth of our business. Accordingly, we do not expect to pay cash dividends on our common stock for the foreseeable future.

Our ability to pay and maintain cash dividends in the future will be based on many factors, including then-existing contractual restrictions or limitations, our ability to execute our growth strategy, our ability to negotiate favorable lease and other contractual terms, anticipated operating expense levels, the level of demand for our units, occupancy rates, entrance fee sales results, the rates we charge, our liquidity position and actual results that may vary substantially from estimates. Some of the factors are beyond our control and a change in any such factor could affect our ability to pay or maintain dividends. We can give no assurance as to our ability to pay or maintain dividends in the future. We also cannot assure you that the level of dividends will be maintained or increase over time or that increases in demand for our units and monthly resident fees will increase our actual cash available for dividends to stockholders. As we have done in the past, we may also pay dividends in the future that exceed our net income for the relevant period as calculated in accordance with U.S. GAAP.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data.

This selected financial data should be read in conjunction with the information contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data." 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, 2014 have been derived from our audited financial statements.

Our 2014 results reflect our acquisition of Emeritus subsequent to July 31, 2014, the closing date of the merger. In addition, with respect to the communities contributed to the CCRC Venture and HCP 49 Venture and communities subject to the Master Lease, our results reflect our previously existing ownership, lease and/or management interests through August 29, 2014, and reflect our venture and management interests and amended lease terms for the remainder of the period. We contributed all but two of our entry fee CCRCs to the CCRC Venture on August 29, 2014, at which time the contributed CCRCs were deconsolidated.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
(in thousands, except per share and other operating data)					
Total revenue	$3,831,706	$2,891,966	$2,768,738	$2,456,483	$2,278,920
Facility operating expense	2,210,368	1,671,945	1,630,919	1,508,571	1,437,930
General and administrative expense	280,267	180,627	178,829	148,327	131,709
Transaction costs	66,949	3,921			
Facility lease expense	323,830	276,729	284,025	274,858	270,905
Depreciation and amortization	537,035	268,757	252,281	268,506	292,341
(Gain) loss on facility lease termination	—		(11,584)		4,608
Gain on sale of communities, net					(3,298)
Loss (gain) on acquisition	—		636	(1,982)	
Asset impairment	9,992	12,891	27,677	16,892	13,075
Costs incurred on behalf of managed communities	488,170	345,808	325,016	152,566	67,271
Total operating expense	3,916,611	2,760,678	2,687,799	2,367,738	2,214,541
(Loss) income from operations	(84,905)	131,288	80,939	88,745	64,379
Interest income	1,343	1,339	4,012	3,538	2,238
Interest expense:					
Debt	(128,002)	(96,131)	(98,183)	(93,229)	(102,245)
Capital and financing lease obligations	(109,998)	(25,194)	(30,155)	(31,644)	(30,396)
Amortization of deferred financing costs and debt premium (discount)	(7,477)	(17,054)	(18,081)	(13,427)	(8,963)
Change in fair value of derivatives	(2,711)	980	(364)	(3,878)	(4,118)
Debt modification and extinguishment costs	(6,387)	(1,265)	(221)	(18,863)	(1,557)
Equity in earnings (loss) of unconsolidated ventures	171	1,484	(3,488)	1,432	168
Other non-operating income (expense)	7,235	2,725	593	56	(1,454)
Loss before income taxes	(330,731)	(1,828)	(64,948)	(67,270)	(81,948)
Benefit (provision) for income taxes	181,305	(1,756)	(1,519)	(1,780)	32,062
Net loss	(149,426)	(3,584)	(66,467)	(69,050)	(49,886)
Net loss attributable to noncontrolling interest	436				

Net loss attributable to Brookdale Senior Living Inc. common stockholders	$(148,990)	$(3,584)	$(66,467)	$(69,050)	$(49,886)
Basic and diluted net loss per share attributable to Brookdale Senior Living Inc. common stockholders	$(1.01)	$(0.03)	$(0.54)	$(0.57)	$(0.42)
Weighted average shares of common stock used in computing basic and diluted net loss per share	148,185	123,671	121,991	121,161	120,010
Other Operating Data:					
Total number of communities (at end of period)	1,143	649	647	647	559
Total units operated[(1)]					
Period end	110,219	66,832	65,936	66,183	50,521
Weighted average	84,299	66,173	66,102	55,548	50,870
Owned/leased communities occupancy rate (weighted average)	88.3%	88.7%	88.0%	87.3%	87.1%
Senior Housing average monthly revenue per unit[(2)]	4,357	$4,383	$4,271	$4,193	$4,053

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	As of December 31,				
	2014	2013	2012	2011	2010
(in millions)					
Cash and cash equivalents	$104.1	$58.5	$69.2	$30.8	$81.8
Total assets	$10,521.4	$4,737.8	$4,706.8	$4,503.4	$4,565.8
Total long-term debt and line of credit	$3,616.7	$2,366.8	$2,359.6	$2,115.4	$2,199.1
Total capital and financing lease obligations	$2,649.2	$299.8	$319.8	$348.2	$371.2
Total equity	$2,882.2	$1,020.9	$997.0	$1,035.3	$1,056.0

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

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis should be read in conjunction with the information contained in "Item 6. Selected Financial Data" and our historical consolidated financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data." In addition to historical information, this discussion and analysis may contain forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Please see additional risks and uncertainties described in "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" for more information. Factors that could cause such differences include those described in "Item 1A. Risk Factors" of this Annual Report on Form 10-K.

Executive Overview and Recent Developments

As of December 31, 2014, we are the largest operator of senior living communities in the United States based on total capacity, with 1,143 communities in 46 states and the ability to serve approximately 111,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. As of December 31, 2014, we operated in five business segments: Retirement Centers, Assisted Living, Continuing Care Retirement Communities ("CCRCs") - Rental, Brookdale Ancillary Services and Management Services.

As of December 31, 2014, we owned or leased 982 communities with 83,176 units and provided management services with respect to 161 communities with 27,683 units for third parties or unconsolidated ventures in which we have an ownership interest. As of December 31, 2014, we operated 148 retirement center communities with 26,514 units, 915 assisted living communities with 62,697 units and 80 CCRCs with 21,648 units. We offer therapy services to approximately 54,000 of our units and home health services to approximately 56,000 of our units. The majority of our units are located in campus settings or communities containing multiple services, including CCRCs. During the year ended December 31, 2014, we generated approximately 80.7% of our resident fee revenues from private pay customers. For the year ended December 31, 2014, 39.2% of our resident and management fee revenues were generated from owned communities, 49.4% from leased communities, 10.1% from our Brookdale Ancillary Services business and 1.3% from management fees from communities we operate on behalf of third parties or unconsolidated ventures.

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

During 2014, we announced and completed several transactions as part of our long-term objectives to grow our revenues, Adjusted EBITDA, Cash From Facility Operations and Facility Operating Income. These transactions, described further below, include our acquisition of Emeritus Corporation ("Emeritus") and our entry into two ventures and a master lease with HCP, Inc. ("HCP"). See "Non-GAAP Financial Measures" below for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, a reconciliation of net loss to each of Adjusted EBITDA and Facility Operating Income and a reconciliation of net cash provided by operating activities to Cash From Facility Operations.

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

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

During the fourth quarter of 2014, we experienced lower than expected occupancy rates, mostly concentrated in legacy Emeritus communities and attributable to lower than expected levels of move-ins. As part of the integration, we created a number of new reporting relationships for our sales and operational teams, and former Emeritus sales teams acclimated to new systems and processes. In addition, our lead generation was temporarily reduced as we worked through relationships with referral sources and as we combined the Brookdale and Emeritus websites and lead banks. The combination of these factors adversely impacted our incremental move-ins during the fourth quarter of 2014, while our move-out activity was within our normal seasonal pattern. We believe we are making progress towards normalization of our move-ins. In addition, we have accelerated our capital expenditures on legacy Emeritus communities to provide our sales force and our residents a more attractive product, and we plan to fully or partially renovate more than 150 legacy Emeritus communities during 2015.

HCP Ventures and Lease Amendments. On August 29, 2014, we completed transactions with HCP pursuant to which we and HCP entered into two ventures and amended the terms of certain existing triple net leases between us and HCP (including those acquired in the Emeritus merger). Each of the ventures uses a "RIDEA" structure, whereby we and HCP invested in an "opco" entity and a "propco" entity. The propco owns most of the applicable communities and leases such communities to the opco pursuant to long-term leases entered into at the closing. The opco owns the remainder of the applicable communities not owned by the propco, and at the closing the opco engaged an affiliate of ours to manage all of the owned and leased communities pursuant to management agreements with 15-year terms subject to certain extension options. The transactions with HCP provide us a strategic capital platform to continue to grow in the senior housing industry and to deliver the best, high-quality solutions for our current residents and address the growing population of seniors.

CCRC Venture. At the closing, we and HCP entered into a venture with respect to certain entry-fee CCRCs previously owned, leased and/or operated by us. We own a 51% ownership interest, and HCP owns a 49% ownership interest, in each of the propco and opco (together, the "CCRC Venture"). At the closing, we contributed to the CCRC Venture eight wholly-owned entities (owning eight CCRCs subject, in certain cases, to existing debt) and certain purchase options with respect to the HCP Communities (as defined below), and HCP contributed to the CCRC Venture three wholly-owned entities (owning three properties in two CCRC communities (the "HCP Communities")). In addition, HCP contributed $323.5 million in cash and the CCRC Venture completed the purchases of four communities managed by us for an aggregate purchase price of $323.5 million immediately following the closing. Each of the communities in the venture is managed by us pursuant to market rate management agreements entered into at the closing, and we have agreed to guarantee certain obligations of the manager under the applicable management agreements. Each of the propco and opco is governed by a board of managers consisting of six members, with three representatives appointed by each of us and HCP.

HCP 49 Venture. In addition, at the closing, we and HCP entered into a venture with respect to 49 independent living, assisted living, memory care and/or skilled nursing care communities previously owned by HCP and leased and historically operated by Emeritus. We acquired the leases though our acquisition of Emeritus, and our entry into the venture effectively terminated the leases. HCP had granted Emeritus purchase option rights with respect to each of the 49 communities, and these purchase options were terminated at the closing. We own a 20% ownership interest, and HCP owns an 80% ownership interest, in each of the propco and opco (together, the "HCP 49 Venture"). At the closing, an HCP affiliate made a loan to us at prevailing interest rates in the original principal amount of approximately $68 million to fund our initial capital contribution to the HCP 49 Venture. HCP contributed 49 communities to propco, and at closing propco leased the communities to opco. Each of the communities in the HCP 49 Venture is managed by an affiliate of ours, and we have agreed to guarantee certain obligations of the manager under the applicable market rate management agreements. During the three months ended December 31, 2014, we repaid the $68 million loan from HCP primarily with the proceeds from the public equity offering completed during the third quarter of 2014.

Master Lease. Finally, at the closing, we and HCP amended and restated several triple net leases between affiliates of HCP and Emeritus, covering an aggregate of 153 communities, together into a single master lease with the communities subject thereto separated into three pools (the "Master Lease"). The term of the Master Lease is 14 years for the pool 1 communities, 15 years for the pool 2 communities and 16 years for the pool 3 communities, with an average of approximately fifteen years, in each case subject to 2 extension options of approximately 10 years each, and the Master Lease is guaranteed by us. The Master Lease provided for total base rent in 2014 of approximately $158.0 million, with lower future rent payments and escalations compared to the previously existing leases. Under the Master Lease, HCP has agreed to make available up to $100.0 million for capital expenditures related to the communities during calendar years 2014 through 2017 at an initial lease rate of 7.0%. In addition, the Master Lease includes a purchase option in our favor for up to ten communities at an aggregate purchase price not to exceed $60.0 million. On December 29, 2014, we exercised this purchase option and agreed to purchase nine communities for an aggregate purchase price of $60.0 million.

During 2014, after completion of the transactions with Emeritus and HCP, we continued our efforts to strengthen our financial position. In the fourth quarter of 2014, we expanded and extended the maturity date of our secured credit facility, and in the third quarter of 2014 we completed a registered public equity offering, which resulted in net proceeds of approximately $330.4 million. During the three months ended December 31, 2014, we repaid $275.9 million of existing long-term debt with a weighted average interest rate of 5.5%, financed primarily with the proceeds of the public equity offering, and we have used and are using the remaining net proceeds to finance the exercise of purchase options on certain communities currently leased by us and for other general corporate purposes, which may include additional debt repayments and the acceleration of capital investments in our communities and corporate infrastructure platform. We ended the year with $104.1 million of unrestricted cash and cash equivalents on our consolidated balance sheet and $388.4 million of availability on our secured credit facility.

During the year, we also made additional progress on our Program Max initiative under which we expand, renovate, redevelop and reposition certain of our existing communities where economically advantageous. For the year ended December 31, 2014, we invested $59.8 million on Program Max projects, net of $34.6 million of third party lessor reimbursement. We completed 16 Program Max projects in 2014, which resulted in 396 net new units. We currently have 18 additional Program Max projects that have been approved, most of which have begun construction and are expected to generate 418 net new units.

We believe that there are substantial organic growth opportunities inherent in our existing portfolio. We intend to take advantage of those opportunities by growing revenues, while maintaining expense control, at our existing communities, continuing the expansion and maturation of our ancillary services programs, expanding, redeveloping and repositioning our existing communities, and acquiring additional operating companies and communities.

The table below presents a summary of our operating results and certain other financial metrics for the years ended December 31, 2014 and 2013 and the amount and percentage of increase or decrease of each applicable item (dollars in millions).

	Years Ended December 31,		Increase (Decrease)	
	2014	2013	Amount	Percent
Total revenue	$3,831.7	$2,892.0	$939.7	32.5 %
Facility Operating Expense	$2,210.4	$1,671.9	$538.4	32.2 %
Net loss attributable to Brookdale Senior Living, Inc. common stockholders	$(149.0)	$(3.6)	$145.4	NM
Adjusted EBITDA	$490.7	$463.2	$27.5	5.9 %
Cash From Facility Operations	$218.3	$294.0	$(75.7)	(25.7)%
Facility Operating Income	$1,070.4	$812.2	$258.2	31.8 %

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

During 2014, total revenues were $3.8 billion, an increase of $939.7 million, or 32.5%, over the prior year. The inclusion of Emeritus' operations since July 31, 2014 contributed $785.5 million to the increase in revenue. Excluding the effects of the Emeritus merger, our total revenues increased $154.2 million in 2014, or 5.3%, over the prior year. Resident fee revenue for 2014 increased $786.3 million, or 31.3%, from the prior year. Management fees increased $11.1 million, or 35.7%, from the prior year, and reimbursed costs on behalf of managed communities increased $142.4 million, or 41.2%. The increase in resident fee revenue during 2014 was primarily due to the inclusion of Emeritus' operating results since July 31, 2014. The increase in management fees and reimbursed costs on behalf of managed communities is primarily due to our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

During 2014, facility operating expenses were $2.2 billion, an increase of $538.4 million, or 32.2%, compared to the prior year. Facility operating expenses increased $511.7 million during 2014 due to the inclusion of Emeritus' operating results since July 31, 2014. Excluding the effects of our acquisition of Emeritus, facility operating expenses increased $26.3 million, or 1.6%, as we continued to control our cost growth.

Net loss attributable to Brookdale Senior Living Inc. common stockholders for 2014 was $149.0 million, or $1.01 per basic and diluted common share, compared to a net loss attributable to Brookdale Senior Living Inc. common stockholders of $3.6 million, or $0.03 per basic and diluted common share, for 2013.

During 2014, our Cash From Facility Operations decreased 25.7%, while Adjusted EBITDA and Facility Operating Income increased 5.9% and 31.8%, respectively, when compared to the prior year. Adjusted EBITDA and Cash From Facility Operations include integration, transaction and electronic medical records ("EMR") roll-out costs of $146.4 million for the year ended December 31, 2014 and $14.5 million for the year ended December 31, 2013.

Consolidated Results of Operations

Year Ended December 31, 2014 and 2013

The following table sets forth, for the periods indicated, statement of operations items and the amount and percentage of change of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our consolidated financial statements and the notes thereto, which are included in "Item 8. Financial Statements and Supplementary Data."

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

During 2014, two communities were moved from the Retirement Centers segment to the Assisted Living segment and one community was moved from the Retirement Centers segment to the CCRCs - Rental segment to more accurately reflect the underlying product offering of the communities. The movement did not change our reportable segments, but it did impact the revenues and expenses reported within the Retirement Centers, Assisted Living and CCRCs - Rental segments. Revenue and expenses for the year ended December 31, 2013 have not been recast.

At December 31, 2014 our total operations included 1,143 communities with a capacity to serve 110,859 residents.

(dollars in thousands, except average monthly revenue per unit)	Years Ended December 31, 2014	2013	Increase (Decrease) Amount	Percent
Statement of Operations Data:				
Revenue				
Resident fees				
Retirement Centers	$582,312	$526,284	$56,028	10.6 %
Assisted Living	1,685,563	1,051,868	633,695	60.2 %
CCRCs - Rental	493,173	396,975	96,198	24.2 %
CCRCs - Entry Fee	202,414	297,756	(95,342)	(32.0)%
Brookdale Ancillary Services	337,835	242,150	95,685	39.5 %
Total resident fees	3,301,297	2,515,033	786,264	31.3 %
Management services[1]	530,409	376,933	153,476	40.7 %
Total revenue	3,831,706	2,891,966	939,740	32.5 %
Expense				
Facility operating expense				
Retirement Centers	333,429	304,002	29,427	9.7 %
Assisted Living	1,077,074	662,190	414,884	62.7 %
CCRCs - Rental	371,512	287,949	83,563	29.0 %
CCRCs - Entry Fee	153,981	221,363	(67,382)	(30.4)%
Brookdale Ancillary Services	274,372	196,441	77,931	39.7 %
Total facility operating expense	2,210,368	1,671,945	538,423	32.2 %
General and administrative expense	280,267	180,627	99,640	55.2 %
Transaction costs	66,949	3,921	63,028	NM
Facility lease expense	323,830	276,729	47,101	17.0 %
Depreciation and amortization	537,035	268,757	268,278	99.8 %
Asset impairment	9,992	12,891	(2,899)	(22.5)%
Costs incurred on behalf of managed communities	488,170	345,808	142,362	41.2 %
Total operating expense	3,916,611	2,760,678	1,155,933	41.9 %
(Loss) income from operations	(84,905)	131,288	(216,193)	(164.7)%
Interest income	1,343	1,339	4	0.3 %
Interest expense:				
Debt	(128,002)	(96,131)	31,871	33.2 %
Capital and financing lease obligations	(109,998)	(25,194)	84,804	336.6 %
Amortization of deferred financing costs and debt premium (discount)	(7,477)	(17,054)	(9,577)	(56.2)%
Change in fair value of derivatives	(2,711)	980	3,691	376.6 %
Debt modification and extinguishment costs	(6,387)	(1,265)	5,122	404.9 %
Equity in earnings of unconsolidated ventures	171	1,484	(1,313)	(88.5)%
Other non-operating income	7,235	2,725	4,510	165.5 %
Loss before income taxes	(330,731)	(1,828)	328,903	NM
Benefit (provision) for income taxes	181,305	(1,756)	183,061	NM
Net loss	(149,426)	(3,584)	145,842	NM
Net loss attributable to noncontrolling interest	436	—	436	100.0 %
Net loss attributable to Brookdale Senior Living, Inc. common stockholders	$(148,990)	$(3,584)	$146,278	NM
Selected Operating and Other Data:				
Total number of communities (period end)	1,143	649	494	76.1 %

Total units operated[2]				
Period end	110,219	65,832	44,387	67.4 %
Weighted average	84,299	66,173	18,126	27.4 %
Owned/leased communities units[2]				
Period end	82,984	48,422	34,562	71.4 %
Weighted average	63,710	48,090	15,620	32.5 %
Owned/leased communities occupancy rate (weighted average)	88.3 %	88.7 %	(0.4)%	(0.5)%
Senior Housing average monthly revenue per unit[3]	$4,357	$4,383	$(26)	(0.6)%

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(dollars in thousands, except average monthly revenue per unit)	Years Ended December 31, 2014	2013	Increase (Decrease) Amount	Percent
Selected Segment Operating and Other Data:				
Retirement Centers				
Number of communities (period end)	99	76	23	30.3 %
Total units[2]				
Period end	17,315	14,454	2,861	19.8 %
Weighted average	15,558	14,439	1,119	7.7 %
Occupancy rate (weighted average)	89.5 %	89.8 %	(0.3)%	(0.3)%
Senior Housing average monthly revenue per unit[3]	$3,485	$3,381	$104	3.1 %
Assisted Living				
Number of communities (period end)	838	438	400	91.3 %
Total units[2]				
Period end	55,189	22,158	33,031	149.1 %
Weighted average	36,350	21,679	14,671	67.7 %
Occupancy rate (weighted average)	88.7 %	89.7 %	(1.0)%	(1.1)%
Senior Housing average monthly revenue per unit[3]	$4,356	$4,510	$(154)	(3.4)%
CCRCs - Rental				
Number of communities (period end)	45	26	19	73.1 %
Total units[2]				
Period end	10,480	6,478	4,002	61.8 %
Weighted average	8,298	6,669	1,629	24.4 %
Occupancy rate (weighted average)	85.8 %	86.8 %	(1.0)%	(1.2)%
Senior Housing average monthly revenue per unit[3]	$5,757	$5,715	$42	0.7 %
CCRCs - Entry Fee				
Number of communities (period end)	—	14	(14)	(100.0)%
Total units[2]				
Period end	—	5,332	(5,332)	(100.0)%
Weighted average	3,504	5,303	(1,799)	(33.9)%
Occupancy rate (weighted average)	85.2 %	84.2 %	1.0 %	1.2 %
Senior Housing average monthly revenue per unit[3]	$5,103	$5,013	$90	1.8 %
Other Entry Fee Data				
Non-refundable entrance fees sales	$32,704	$44,191	$(11,487)	(26.0)%
Refundable entrance fees sales[4]	20,342	48,140	(27,798)	(57.7)%
Total entrance fee receipts	53,046	92,331	(39,285)	(42.5)%
Refunds	(25,865)	(35,325)	(9,460)	(26.8)%
Net entrance fees	$27,181	$57,006	$(29,825)	(52.3)%
Management Services				
Number of communities (period end)	161	95	66	69.5 %
Total units[2]				
Period end	27,235	17,410	9,825	56.4 %
Weighted average	20,589	18,083	2,506	13.9 %
Occupancy rate (weighted average)	86.5 %	85.4 %	1.1 %	1.3 %
Brookdale Ancillary Services				
Outpatient Therapy treatment codes	3,053,436	3,325,129	(271,693)	(8.2)%
Home Health average census	8,345	4,498	3,847	85.5 %

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

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

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

(4) Refundable entrance fee sales for the years ended December 31, 2014 and 2013 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled $2.9 million and $19.0 million for the years ended December 31, 2014 and 2013, respectively.

Resident Fee Revenue

Resident fee revenue increased $786.3 million in 2014, or 31.3%, over the prior year primarily due to the inclusion of revenue from communities acquired (including communities acquired as part of the Emeritus transaction) and new units added to existing communities since the end of 2013, partially offset by the effect of the contribution of entry fee CCRCs to the CCRC Venture. During 2014, revenues grew 2.9% at the 500 communities we owned or leased during both years, with a 3.4% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy in these 500 communities decreased 0.5% over the prior year.

Retirement Centers segment revenue increased $56.0 million in 2014, or 10.6%, over the prior year primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed $49.5 million to the increase in revenue. Excluding the effects of our acquisition of Emeritus, Retirement Centers segment revenue increased $6.5 million in 2014, or 1.2%, over the prior year primarily due to an increase in average monthly revenue per unit at the communities we operated during both years, offset in part by the reclassification of two communities from this segment into the Assisted Living segment and one community from this segment to the CCRCs - Rental segment during 2014.

Assisted Living segment revenue increased $633.7 million in 2014, or 60.2%, over the prior year primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed $573.3 million to the increase in revenue. Excluding the effects of our acquisition of Emeritus, Assisted Living segment revenue increased $60.4 million in 2014, or 5.7%, over the prior year primarily due to an increase in average monthly revenue per unit at the communities we operated during both years. Additionally, Assisted Living segment revenue increased due to the impact of the reclassification of two communities from the Retirement Centers segment into this segment during 2014. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs - Rental segment revenue increased $96.2 million in 2014, or 24.2%, over the prior year primarily due to the inclusion of revenue from communities acquired during 2014. The inclusion of Emeritus' operating results since July 31, 2014 contributed $70.3 million to the increase in revenue. Excluding the effects of our acquisition of Emeritus, revenue increased $25.9 million in 2014, or 6.5%, over the prior year primarily due to the reclassification of two communities into this segment from the CCRCs - Entry Fee segment beginning with the third quarter of 2014 and an increase in average monthly revenue per unit at the communities we operated during both years. The increase was partially offset by a decrease in occupancy at the communities we operated during both periods.

CCRCs - Entry Fee segment revenue decreased $95.3 million in 2014, or 32.0%, over the prior year primarily due to the contribution of all but two of our entry fee CCRCs to the CCRC Venture and the reclassification of the two remaining CCRCs from this segment into the CCRCs - Rental segment beginning with the third quarter of 2014.

Brookdale Ancillary Services segment revenue increased $95.7 million in 2014, or 39.5%, over the prior year primarily due to the inclusion of $76.8 million of revenues related to Nurse on Call, which we acquired as part of our acquisition of Emeritus. Excluding the effects of our acquisition of Emeritus, Brookdale Ancillary Services segment revenue increased $18.9 million in 2014, or 7.8%, over the prior year driven by an increase in home health average census and the roll-out of our hospice services to additional units in 2014. The increase was partially offset by a decrease in therapy service volume during 2014.

Management Services Revenue

Management Services segment revenue, including reimbursed costs incurred on behalf of managed communities, increased $153.5 million in 2014, or 40.7%, over the prior year. The increase in management fees and reimbursed costs on behalf of managed communities is primarily due to our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

Facility Operating Expense

Facility operating expense increased $538.4 million in 2014, or 32.2%, over the prior year primarily due to the impact of our acquisition of Emeritus.

Retirement Centers segment operating expenses increased $29.4 million in 2014, or 9.7%, over the prior year primarily due to the inclusion of operating expenses from communities acquired during 2014. Of the increase, $25.9 million was attributable to the inclusion of the operating results of Emeritus since July 31, 2014. Excluding the effects of our acquisition of Emeritus, operating expenses increased $3.5 million driven by an increase in salaries and wages due to wage rate increases and an increase in advertising expense. The increase was offset in part by the reclassification of two communities from this segment into the Assisted Living segment and one community from this segment to the CCRCs - Rental segment during 2014.

Assisted Living segment operating expenses increased $414.9 million in 2014, or 62.7%, over the prior year primarily due to the inclusion of operating expenses from communities acquired during 2014. Of the increase, $370.7 million was attributable to the inclusion of the operating results of Emeritus since July 31, 2014. Excluding the effects of our acquisition of Emeritus, operating expenses increased by $44.2 million driven by an increase in salaries and wages due to wage rate increases, an increase in insurance expense and an increase in advertising expense. Additionally, Assisted Living segment operating expenses increased due to the impact of the reclassification of two communities from the Retirement Centers segment into this segment during 2014.

CCRCs - Rental segment operating expenses increased $83.6 million in 2014, or 29.0%, over the prior year primarily due to the inclusion of operating expenses from communities acquired during 2014. Of the increase, $52.9 million was attributable to the inclusion of the operating results of Emeritus since July 31, 2014. The remaining $30.7 million increase was primarily due to the reclassification of two communities into this segment from the CCRCs - Entry Fee segment beginning with the third quarter of 2014.

CCRCs - Entry Fee segment operating expenses decreased $67.4 million in 2014, or 30.4%, over the prior year primarily due to the contribution of all but two of our entry fee CCRCs to the CCRC Venture and the reclassification of the two remaining CCRCs from this segment into the CCRCs - Rental segment beginning with the third quarter of 2014.

Brookdale Ancillary Services segment operating expenses increased $77.9 million in 2014, or 39.7%, over the prior year primarily due to the inclusion of expenses related to Nurse on Call (which we acquired in connection with our acquisition of Emeritus) and an increase in expenses incurred in connection with higher census and the continued expansion of our ancillary services programs, partially offset by a decrease in bad debt expense.

General and Administrative Expense

General and administrative expense increased $99.6 million in 2014, or 55.2%, over the prior year primarily as a result of an increase in integration costs and the addition of employees associated with our acquisition of Emeritus. Integration costs include third-party expenses directly related to the integration of Emeritus as well as internal costs such as labor, reflecting time spent by our personnel on integration and transaction activity. Transaction costs relating to our acquisition of Emeritus (and the completion of the transactions during 2014 with HCP) are reported separately from general and administrative expense, as further discussed below.

Transaction Costs

Transaction costs for 2014 were $66.9 million, an increase from $4.0 million in the prior year. The increase is a result of transaction fees and direct acquisition costs related to our acquisition of Emeritus and the completion of the transactions with HCP during 2014, including expenses such as lender costs and legal, banking, accounting and consulting fees.

Facility Lease Expense

Facility lease expense increased $47.1 million in 2014, or 17.0%, over the prior year primarily due to the inclusion of lease expense from leases assumed as part of our acquisition of Emeritus.

Depreciation and Amortization

Depreciation and amortization expense increased $268.3 million in 2014, or 99.8%, over the prior year primarily due to the acquisition of communities in 2014, driven by amortization of in-place lease intangibles acquired as part of our acquisition of Emeritus, partially offset by the contribution of previously owned communities to the CCRC Venture in August 2014. Additionally, depreciation expense increased in 2014 as a result of increased capital expenditures compared to the prior year.

Asset Impairment

During 2014 and 2013, we recorded impairment charges of $10.0 million and $12.9 million, respectively, related to asset impairment for property, plant and equipment and leasehold intangibles for certain communities. These impairment charges are primarily due to lower than expected performance of the underlying communities. We compared the estimated fair value of the assets to their carrying value and recorded an impairment charge for the excess of carrying value over estimated fair value.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased $142.4 million, or 41.2%, primarily due to the our assumption of management agreements as part of our acquisition of Emeritus and our entry into management agreements with the CCRC Venture and HCP 49 Venture.

Interest Expense

Interest expense increased $110.8 million in 2014, or 80.6%, over the prior year primarily due to our assumption of Emeritus' debt and capital and financing lease obligations, which increased interest expense by $25.0 million and $85.1 million, respectively (including the impact of non-cash interest expense related to the amortization of debt discounts and premiums recorded).

Income Taxes

The difference in our effective tax rates for the years ended December 31, 2014 and 2013 was primarily due to the reversal of the valuation allowance that had been recorded against our deferred tax assets. As a result of the acquisition of Emeritus, we recorded deferred tax liabilities in excess of deferred tax assets that reflect the difference between the fair market value of the acquired assets over the historical basis of the acquired assets. We determined that it is more likely than not that our federal net operating loss carryforwards and a majority of our state net operating loss carryforwards and tax credits will be utilized in the future, based on the future reversal of these deferred tax liabilities. As a result, during 2014 we recorded an aggregate deferred federal, state and local income tax benefit of $64.2 million from the release of the valuation allowance against certain deferred tax assets. Additionally, we recorded an aggregate deferred federal, state and local tax benefit of $94.1 million as a result of the operating loss for the year ended December 31, 2014. Our 2014 effective rate was also impacted by certain transaction expenses that were incurred as part of acquisition of Emeritus that are required to be capitalized for income tax purposes. We do not expect that we will become a federal cash income tax payer until 2017, at the earliest.

Year Ended December 31, 2013 and 2012

The following table sets forth, for the periods indicated, statement of operations items and the amount and percentage of change of these items. The results of operations for any particular period are not necessarily indicative of results for any future period. The following data should be read in conjunction with our consolidated financial statements and the notes thereto, which are included in "Item 8. Financial Statements and Supplementary Data." Our results reflect the inclusion of acquisitions that occurred during the respective reporting periods.

As of December 31, 2013, our total operations included 649 communities with a capacity to serve 66,524 residents.

(dollars in thousands, except average monthly revenue per unit)	Years Ended December 31, 2013	2012	Increase (Decrease) Amount	Percent
Statement of Operations Data:				
Revenue				
Resident fees				
Retirement Centers	$526,284	$503,902	$22,382	4.4 %
Assisted Living	1,051,868	1,013,337	38,531	3.8 %
CCRCs - Rental	396,975	385,479	11,496	3.0 %
CCRCs - Entry Fee	297,756	285,701	12,055	4.2 %
Brookdale Ancillary Services	242,150	224,517	17,633	7.9 %
Total resident fees	2,515,033	2,412,936	102,097	4.2 %
Management services(1)	376,933	355,802	21,131	5.9 %
Total revenue	2,891,966	2,768,738	123,228	4.5 %
Expense				
Facility operating expense				
Retirement Centers	304,002	298,317	5,685	1.9 %
Assisted Living	662,190	652,153	10,037	1.5 %
CCRCs - Rental	287,949	279,416	8,533	3.1 %
CCRCs - Entry Fee	221,363	224,296	(2,933)	(1.3)%
Brookdale Ancillary Services	196,441	176,737	19,704	11.1 %
Total facility operating expense	1,671,945	1,630,919	41,026	2.5 %
General and administrative expense	180,627	178,829	1,798	1.0 %
Transaction costs	3,921	—	3,921	NM
Facility lease expense	276,729	284,025	(7,296)	(2.6)%
Depreciation and amortization	268,757	252,281	16,476	6.5 %
Asset impairment	12,891	27,677	(14,786)	(53.4)%
Loss on acquisition	—	636	(636)	(100.0)%
Gain on facility lease termination	—	(11,584)	(11,584)	(100.0)%
Costs incurred on behalf of managed communities	345,808	325,016	20,792	6.4 %
Total operating expense	2,760,678	2,687,799	72,879	2.7 %
Income from operations	131,288	80,939	50,349	62.2 %
Interest income	1,339	4,012	(2,673)	(66.6)%
Interest expense:				
Debt	(96,131)	(98,183)	(2,052)	(2.1)%
Capital and financing lease obligation	(25,194)	(30,155)	(4,961)	(16.5)%
Amortization of deferred financing costs and debt discount	(17,054)	(18,081)	(1,027)	(5.7)%
Change in fair value of derivatives	980	(364)	1,344	369.2 %
Debt modification and extinguishment costs	(1,265)	(221)	1,044	472.4 %
Equity in earnings (loss) of unconsolidated ventures	1,484	(3,488)	4,972	142.5 %
Other non-operating income	2,725	593	2,132	359.5 %

Loss before income taxes	(1,828)	(64,948)	(63,120)	(97.2)%
Provision for income taxes	(1,756)	(1,519)	237	15.6 %
Net loss	$(3,584)	$(66,467)	$(62,883)	(94.6)%
Selected Operating and Other Data:				
Total number of communities (period end)	649	647		
Total units operated(2)				
Period end	65,832	65,936	(104)	(0.2)%
Weighted average	66,173	66,102	71	0.1 %
Owned/leased communities units(2)				
Period end	48,422	47,938	484	1.0 %
Weighted average	48,090	47,947	143	0.3 %
Owned/leased communities occupancy rate (weighted average)	88.7 %	88.0 %	0.7 %	0.8 %
Senior Housing average monthly revenue per unit(3)	$4,383	$4,271	$112	2.6 %

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(dollars in thousands, except average monthly revenue per unit)	Years Ended December 31, 2013	2012	Increase (Decrease) Amount	Percent
Selected Segment Operating and Other Data:				
Retirement Centers				
Number of communities (period end)	76	76	—	—
Total units(2)				
Period end	14,454	14,433	21	0.1 %
Weighted average	14,439	14,445	(6)	—
Occupancy rate (weighted average)	89.8 %	89.1 %	0.7 %	0.8 %
Senior Housing average monthly revenue per unit(3)	$3,381	$3,263	$118	3.6 %
Assisted Living				
Number of communities (period end)	438	433	5	1.2 %
Total units(2)				
Period end	22,158	21,551	607	2.8 %
Weighted average	21,679	21,625	54	0.2 %
Occupancy rate (weighted average)	89.7 %	88.9 %	0.8 %	0.9 %
Senior Housing average monthly revenue per unit(3)	$4,510	$4,390	$120	2.7 %
CCRCs - Rental				
Number of communities (period end)	26	27	(1)	(3.7)%
Total units(2)				
Period end	6,478	6,691	(213)	(3.2)%
Weighted average	6,669	6,667	2	—
Occupancy rate (weighted average)	86.8 %	86.3 %	0.5 %	0.6 %
Senior Housing average monthly revenue per unit(3)	$5,715	$5,588	$127	2.3 %
CCRCs - Entry Fee				
Number of communities (period end)	14	14	—	—
Total units(2)				
Period end	5,332	5,263	69	1.3 %
Weighted average	5,303	5,210	93	1.8 %
Occupancy rate (weighted average)	84.2 %	83.7 %	0.5 %	0.6 %
Senior Housing average monthly revenue per unit(3)	$5,013	$4,978	$35	0.7 %
Other Entry Fee Data				
Non-refundable entrance fees sales	$44,191	$40,105	$4,086	10.2 %
Refundable entrance fees sales(4)	48,140	42,600	5,540	13.0 %
Total entrance fee receipts	92,331	82,705	9,626	11.6 %
Refunds	(35,325)	(27,356)	7,969	29.1 %
Net entrance fees	$57,006	$55,349	$1,657	3.0 %
Management Services				
Number of communities (period end)	95	97	(2)	(2.1)%
Total units(2)				
Period end	17,410	17,998	(588)	(3.3)%
Weighted average	18,083	18,155	(72)	(0.4)%
Occupancy rate (weighted average)	85.4 %	84.5 %	0.9 %	1.1 %
Brookdale Ancillary Services				
Outpatient Therapy treatment codes	3,325,129	3,566,654	(241,525)	(6.8)%
Home Health average census	4,498	3,710	788	21.2 %

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

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

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

(4) Refundable entrance fee sales for the years ended December 31, 2013 and 2012 include amounts received from residents participating in the MyChoice program, which allows new and existing residents the option to pay additional refundable entrance fee amounts in return for a reduced monthly service fee. MyChoice amounts received from residents totaled $19.0 million and $13.3 million for the years ended December 31, 2013 and 2012, respectively.

Resident Fee Revenue

Resident fee revenue increased $102.1 million in 2013, or 4.2%, over the prior year primarily as a result of an increase in the average monthly revenue per unit compared to the prior year, including an increase in revenue from our ancillary services programs, an increase in occupancy and an increase in consolidated units operated. During 2013, revenues grew 3.4% at the 523 communities we operated during both years with a 2.4% increase in the average monthly revenue per unit (excluding amortization of entrance fees in both instances). Occupancy increased 0.8% in these communities year over year.

Retirement Centers segment revenue increased $22.4 million in 2013, or 4.4%, over the prior year primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both years.

Assisted Living segment revenue increased $38.5 million in 2013, or 3.8%, over the prior year primarily due to increases in average monthly revenue per unit and occupancy at the communities operated during both years, as well as the inclusion of revenue from eight communities acquired in 2013. The increase was partially offset by the impact of the disposition of three communities during 2013.

CCRCs - Rental segment revenue increased $11.5 million in 2013, or 3.0%, over the prior year primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both years. The increase was partially offset by the impact of the disposition of one community during 2013.

CCRCs - Entry Fee segment revenue increased $12.1 million in 2013, or 4.2%, over the prior year primarily due to increases in average monthly revenue per unit and occupancy at the communities we operated during both years and an increase in the number of units operated. The increase was partially offset by a decrease in skilled therapy revenue due to lower Medicare reimbursement.

Brookdale Ancillary Services segment revenue increased $17.6 million in 2013, or 7.9%, over the prior year primarily due to the roll-out of our ancillary services programs to additional units subsequent to the prior year end. The increase was partially offset by a decrease in therapy service volume and by the impact of reimbursement changes.

Management Services Revenue

Total management services revenue increased $21.1 million in 2013, or 5.9%, over the prior year primarily due to additional costs incurred on behalf of managed communities resulting from an increase in the number of communities managed during 2013 prior to the acquisition of six previously managed communities and termination of a contract of one managed community in the fourth quarter of 2013.

Facility Operating Expense

Facility operating expense increased $41.0 million in 2013, or 2.5%, over the prior year primarily due to an increase in salaries and wages, an increase in marketing and advertising, and additional expenses incurred in connection with the expansion of our ancillary services programs. These increases were partially offset by a decrease in insurance expense.

Retirement Centers segment operating expenses increased $5.7 million in 2013, or 1.9%, over the prior year primarily due to an increase in salaries and wages due to wage increases and an increase in marketing and advertising expense. There was also an increase in real estate tax expense year over year and an increase in food and supplies expense driven by higher occupancy compared to the prior year. These increases were partially offset by a decrease in insurance expense.

Assisted Living segment operating expenses increased $10.0 million in 2013, or 1.5%, over the prior year primarily due to an increase in salaries and wages due to wage increases and an increase in marketing and advertising expense. There was also an increase in grounds maintenance and repairs expense, an increase in food and supplies expense driven by higher occupancy compared to the prior year, and an increase in real estate tax expense year over year. These increases were partially offset by a decrease in insurance expense.

CCRCs - Rental segment operating expenses increased $8.5 million in 2013, or 3.1%, over the prior year primarily driven by an increase in salaries and wages due to wage rate increases and an increase in hours worked year over year, an increase in bad debt expense compared to the prior year, an increase in healthcare supplies expense due to an increase in occupancy and residents with higher acuity needs, and an increase in marketing and advertising expense. These increases were partially offset by a decrease in insurance expense.

CCRCs - Entry Fee segment operating expenses decreased $2.9 million in 2013, or 1.3%, over the prior year primarily due to a decrease in insurance expense compared to the prior year and a decrease in future service obligations related to entrance fee contracts. These decreases were partially offset by an increase in salaries and wages due to wage increases, an increase in marketing and advertising expense, and an increase in bad debt expense compared to the prior year.

Brookdale Ancillary Services segment operating expenses increased $19.7 million in 2013, or 11.1%, over the prior year primarily due to an increase in expenses incurred in connection with the continued expansion of our ancillary service programs, an increase in therapy labor expense and an increase in bad debt expense.

General and Administrative Expense

General and administrative expense increased $1.8 million in 2013, or 1.0%, over the prior year primarily as the result of increases in salaries and wage expense and employee benefits expense primarily due to increased employee headcount and increases in travel, repairs and maintenance, and marketing and advertising expenses. These increases were partially offset by a decrease in integration and EMR roll-out costs compared to the prior year.

Facility Lease Expense

Facility lease expense decreased $7.3 million in 2013, or 2.6%, over the prior year primarily as a result of the purchase of 12 previously leased communities in 2012.

Depreciation and Amortization

Depreciation and amortization expense increased by $16.5 million in 2013, or 6.5%, over the prior year primarily as the result of the purchase of 12 previously leased communities in 2012 and the purchase of eight communities, including six previously managed communities, in 2013. Additionally, there was additional depreciation in 2013 resulting from increased capital expenditures year over year. These increases were partially offset by the impact of the disposition of four communities during 2013.

Asset Impairment

During 2013, we recognized $12.9 million of impairment charges related to asset impairments for property, plant and equipment and leasehold intangibles for certain communities primarily within the CCRCs - Rental and Assisted Living segments primarily due to the amount by which the carrying values of the assets exceeded the estimated fair value. During 2012, we recognized $27.7 million of impairment charges related to asset impairments for property, plant and equipment and leasehold intangibles for certain communities within the Assisted Living and Retirement Center segments. We compared the estimated fair value of the assets to their carrying value and recorded an impairment charge for the excess of carrying value over estimated fair value.

Gain on Facility Lease Termination

During 2012, we recognized an $11.6 million net gain on facility lease termination from the reversal of deferred lease liabilities associated with 12 previously-leased communities that were acquired during the year.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased $20.8 million in 2013, or 6.4% over the prior year. The increase is primarily due to an increase in the number of communities managed during 2013 prior to the acquisition of six previously managed communities and termination of a contract of one managed community in the fourth quarter of 2013.

Interest Income

Interest income decreased $2.7 million in 2013, or 66.6%, over the prior year primarily due to the liquidation of marketable securities in the prior year.

Interest Expense

Interest expense decreased $9.4 million in 2013, or 6.4%, over the prior year primarily due to decreased interest expense related to our mortgage debt, which had lower interest rates year over year and a gain recorded from the change in the fair value of interest rate swaps and caps due to an increase in interest rates since the purchase of the instruments.

Income Taxes

The difference in our effective tax rates for the years ended December 31, 2013 and 2012 was due to the impact of our improved financial results under generally accepted accounting principles. Tax expense primarily reflects our cash tax position for states that do not allow for or have suspended the use of net operating losses for the period. We recorded a valuation allowance against deferred tax benefits generated during 2013.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses. We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate, or different estimates that could have been selected, could have a material impact on our consolidated results of operations or financial condition. We have identified the following critical accounting policies that affect significant estimates and judgments.

Revenue Recognition at Entrance Fee Communities

Our entrance fee communities provide housing and healthcare services through entrance fee agreements with residents. Under certain of these agreements, residents pay an entrance fee upon entering into the contract and are contractually guaranteed certain limited lifecare benefits in the form of healthcare discounts. The recognition of entrance fee income requires the use of various actuarial estimates. We recognize this revenue by recording the non-refundable portion of the residents' entrance fees as deferred entrance fee income and amortizing it into revenue using the straight-line method over the estimated remaining life expectancy of each resident or couple, adjusted annually. We periodically assess the reasonableness of these mortality tables and other actuarial assumptions. We contributed all but two of our entry fee CCRCs to the CCRC Venture on August 29, 2014, at which time the contributed CCRCs were deconsolidated.

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 communities under a master insurance program, our current policies provide for deductibles for each and every claim.

As a result, we are effectively self-insured for claims that are less than the deductible amounts. In addition, we maintain a large-deductible workers compensation program and a self-insured employee medical program. We have secured our obligations related to general liability, professional liability and workers compensation programs with cash aggregating $19.6 million, deposits aggregating $51.9 million and letters of credit aggregating $33.8 million as of December 31, 2014. We operate a wholly-owned captive insurance company, Senior Services Insurance Limited ("SSIL") for the purpose of insuring certain portions of the risk retention under our general liability and professional liability insurance program, but SSIL's coverage is currently limited to claims made prior to 2010. Third-party insurers are responsible for claim costs above program deductibles and retentions.

The cost of our employee health and dental benefits, net of employee contributions, is shared by us and our communities based on the respective number of participants working directly either at our corporate offices or at the communities. Cash received is used to pay the actual costs of administering the program which include paid claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator.

Outstanding losses and expenses for general liability and professional liability and workers compensation are estimated based on the recommendations of independent actuaries and management's estimates. Outstanding losses and expenses for our self-insured medical program are estimated based on the recommendation of our third party administrator and management's estimates.

We review the adequacy of our 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 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. Changes in self-insurance reserves are recorded as an increase or decrease to expense in the period that the determination is made.

Income Taxes

We account for income taxes under the provisions of Accounting Standards Codification ("ASC") 740, Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. As of December 31, 2014 and 2013, we have a valuation allowance against deferred tax assets of approximately $9.2 million and $72.4 million, respectively. When we determine that it is more likely than not that we will be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would be made and reflected in income. This determination will be made by considering various factors, including the reversal of existing temporary differences, tax planning strategies and estimates of future taxable income exclusive of the reversal of temporary differences.

We have elected the "with-and-without approach" regarding ordering of windfall tax benefits to determine whether the windfall tax benefit did reduce taxes payable in the current year. Under this approach, the windfall tax benefits would be recognized in additional paid-in capital only if an incremental tax benefit is realized after considering all other tax benefits presently available to us.

Lease Accounting

We determine whether to account for our leases as either operating or capital or financing leases depending on the underlying terms. As of December 31, 2014, we operated 583 communities under long-term leases with operating, capital and financing lease obligations. The determination of this classification is complex and in certain situations requires a significant level of judgment. Our classification criteria is based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements. Communities under operating leases are accounted for in our consolidated statements of operations as lease expenses for actual rent paid plus or minus straight-line adjustments for fixed or estimated minimum lease escalators as well as amortization of above/below market rents and deferred gains. For communities under capital and financing lease obligation arrangements, a liability is established on our balance sheets and a corresponding long-term asset is recorded. Lease payments are allocated between principal and interest on the remaining base lease obligations. For capital lease assets, the asset is depreciated over the remaining lease term unless there is a bargain purchase option in which case the asset is depreciated over the useful life. For financing lease assets, the asset is depreciated over the useful life of the asset. 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-leaseback transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options.

Allowance for Doubtful Accounts and Contractual Adjustments

Accounts receivable are reported net of an allowance for doubtful accounts, and represent our estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was $26.5 million and $17.7 million as of December 31, 2014 and 2013, respectively. The adequacy of our allowance for doubtful 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. Recent changes in legislation are not expected to have a material impact on the collectability of our accounts receivable; however, changes in economic conditions could have an impact on the collection of existing receivable balances or future allowance calculations.

Approximately 80.7% and 80.0% of our resident fee revenues for the years ended December 31, 2014 and 2013, respectively, were derived from private pay customers and 19.3% and 20.0% of our resident fee revenues for the years ended December 31, 2014 and 2013, respectively, were derived from services covered by various third-party payor programs, including Medicare and Medicaid. Billings for services under third-party payor programs are recorded net of estimated retroactive adjustments, if any, under reimbursement programs. Revenue related to these billings is recorded on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. We accrue contractual or cost related adjustments from Medicare or Medicaid when assessed (without regard to when the assessment is paid or withheld), even if we have not agreed to or are appealing the assessment. Subsequent positive or negative adjustments to these accrued amounts are recorded in net revenues when known.

Long-Lived Assets and Goodwill

As of December 31, 2014 and 2013, our long-lived assets were comprised primarily of $8.4 billion and $3.9 billion of net property, plant and equipment and leasehold intangibles, respectively. In accounting for our property, plant and equipment and leasehold intangibles, we apply the provisions of ASC 360, Property, Plant and Equipment. Acquisitions are accounted for using the purchase method of accounting and the purchase prices are allocated to acquired assets and liabilities based on their estimated fair values. Goodwill recorded in connection with business combinations is allocated to the respective reporting unit and included in our application of the provisions of ASC 350, Intangibles – Goodwill and Other ("ASC 350"). We account for goodwill under the provisions of ASC 350. As of December 31, 2014 and 2013, we had goodwill balances of $736.8 million and $109.6 million, respectively. The increase in goodwill during the year ended December 31, 2014 is attributed to goodwill recorded in connection with our acquisition of Emeritus.

We test long-lived assets other than goodwill and indefinite-lived intangible assets for recoverability annually during our fourth quarter or whenever changes in circumstances indicate the carrying value may not be recoverable. Recoverability of an asset (group) is estimated by comparing its carrying value to the future net undiscounted cash flows expected to be generated by the asset (group). If this comparison indicates that the carrying value of an asset (group) is not recoverable, we are required to recognize an impairment loss. The impairment loss is measured by the amount by which the carrying amount of the asset (group) exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the carrying amount of those assets is permanently adjusted and depreciated over its remaining useful life. During 2014, 2013 and 2012 we evaluated long-lived depreciable assets and determined that the undiscounted cash flows exceeded the carrying value of these assets for all except a small number of communities. Estimated fair values were determined and we recorded non-cash asset impairment charges of $10.0 million, $12.9 million and $27.7 million for 2014, 2013 and 2012, respectively. These impairment charges are primarily due to lower than expected performance of the underlying communities and the amount by which the carrying values of the assets exceed the estimated fair value.

We test goodwill for impairment annually during our fourth quarter, or whenever indicators exist that suggest that our goodwill may not be recoverable. We first assess qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. We are not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value.

Indefinite-lived intangible assets are tested for impairment annually during our fourth quarter or more frequently as required. The impairment test consists of a comparison of the estimated fair value of the indefinite-lived intangible asset with its carrying value. If the carrying amount exceeds its fair value, an impairment loss is recognized for that difference.

In estimating the fair value of long-lived assets (groups) and reporting units for purposes of our goodwill impairment test, we generally use the income approach. The income approach utilizes future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting an unknown future and require significant management judgments and estimates. In arriving at our cash flow projections, we consider our historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. Future events may indicate differences from management's current judgments and estimates which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact discount rates, differences in the projected occupancy rates and changes in the cost structure of existing communities.

In using the income approach to estimate the fair value of long-lived assets (groups) and reporting units for purposes of our goodwill impairment test, we make certain key assumptions. Those assumptions include future revenues and future facility operating expenses, and future cash flows that we would receive upon a sale of the communities using estimated capitalization rates. We corroborate the capitalization rates we use in these calculations with capitalization rates observable from recent market transactions.

Where required, future cash flows are discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise.

Although we make every reasonable effort to ensure the accuracy of our estimate of the fair value of our reporting units, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss.

Stock-Based Compensation

ASC 718, Compensation – Stock Compensation ("ASC 718") requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred.

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

Litigation

Litigation is inherently uncertain and the outcome of individual litigation matters is not predictable with assurance. As described in Note 19 to the consolidated financial statements, we are involved in various legal actions and claims incidental to the conduct of our business which are comparable to other companies in the senior living and healthcare industries. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. In other instances, we may not be able to make a reasonable estimate of any liability because of uncertainties related to the outcome and/or the amount or range of losses. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

New Accounting Pronouncements

See Note 2 of the notes to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for a discussion of new accounting pronouncements.

Liquidity and Capital Resources

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

	Year Ended December 31,	
	2014	2013
Cash provided by operating activities	$242,652	$366,121
Cash used in investing activities	(314,882)	(264,806)
Cash provided by (used in) financing activities	117,802	(112,044)
Net increase (decrease) in cash and cash equivalents	45,572	(10,729)
Cash and cash equivalents at beginning of year	58,511	69,240
Cash and cash equivalents at end of year	$104,083	$58,511

The decrease in cash provided by operating activities of $123.5 million was primarily attributable to an increase in integration and transaction costs in 2014. Integration costs include third-party expenses directly related to the integration of Emeritus as well as internal costs such as labor, reflecting time spent by our personnel on integration and transaction activity. Transaction costs relate to our acquisition of Emeritus and the completion of the transactions during 2014 with HCP.

The increase in cash used in investing activities of $50.1 million was primarily attributable to an increase in spending on property, plant, and equipment, and leasehold intangibles in 2014.

The change in cash provided by (used in) financing activities year over year was primarily attributable to the receipt of $330.4 million of net proceeds from a public equity offering of approximately 10.3 million shares of common stock.

Our principal sources of liquidity have historically been from:

cash balances on hand;
cash flows from operations;
funds generated through unconsolidated venture arrangements;

proceeds from our credit facilities;
proceeds from mortgage financing, refinancing of various assets or sale-leaseback transactions; and
with somewhat lesser frequency, funds raised in the debt or equity markets and proceeds from the selective disposition of underperforming and/or non-core assets.

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

Our liquidity requirements have historically arisen from:

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

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

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

We are highly leveraged and have significant debt and lease obligations. As of December 31, 2014, we have three principal corporate-level debt obligations: our $500.0 million secured credit facility, our $316.3 million 2.75% convertible senior notes due 2018, and our separate secured and unsecured letter of credit facilities providing for up to $98.7 million of letters of credit in the aggregate. The remainder of our indebtedness is generally comprised of approximately $3.2 billion of non-recourse property-level mortgage financings as of December 31, 2014.

At December 31, 2014, we had $3.5 billion of debt outstanding, excluding capital and financing lease obligations and our secured credit facility, at a weighted-average interest rate of 5.0% (calculated using an imputed interest rate of 7.5% for our 2.75% convertible senior notes due 2018). At December 31, 2014, we had $2.6 billion of capital and financing lease obligations, $100.0 million was drawn on our secured credit facility, and $72.7 million of letters of credit had been issued under our letter of credit facilities. Approximately $272.3 million of our debt and capital lease obligations are due on or before December 31, 2015. We also have substantial operating lease obligations and capital expenditure requirements. For the year ending December 31, 2015, we will be required to make approximately $396.0 million of payments in connection with our existing operating leases.

At December 31, 2014, we had $263.0 million of negative working capital. We had $104.1 million of cash and cash equivalents at December 31, 2014, excluding cash and escrow deposits-restricted and lease security deposits of $151.5 million in the aggregate. As of that date, we also had $388.4 million of availability on our secured credit facility.

On September 12, 2014, we completed a public equity offering of 10,298,506 shares of common stock resulting in net proceeds of approximately $330.4 million. During the three months ended December 31, 2014, we repaid $275.9 million of existing long-term debt with a weighted average interest rate of 5.5% (including the $68 million loan from HCP used to fund our initial capital contribution to the HCP 49 Venture), financed primarily with the proceeds of the public equity offering, and we have used and are using the remaining net proceeds to finance the exercise of purchase options on certain communities currently leased by us and for other general corporate purposes, which may include additional debt repayments and the acceleration of capital investments in our communities and corporate infrastructure platform.

One of our primary growth strategies is growing the business through strategic capital allocation. During 2014 we made progress on this objective by making significant investments in our communities. We look at our capital deployment in two ways: (1) investment in our existing assets through capital expenditures for recurring capital, corporate capital and other major projects and (2) investment in our existing assets through our Program Max initiative. On some of our leased communities, certain of our capital spend is subject to third party lessor funding.

Investments in our current portfolio are comprised of recurring capital expenditures and other major projects (including corporate initiatives). These major projects include unusual or non-recurring capital projects, projects which create new or enhanced economics, such as major renovations or reposition projects at our communities, integration related expenditures (including the cost of developing information systems), and expenditures supporting the expansion of our ancillary services programs.

Through our Program Max initiative, we intend to expand, renovate, redevelop and reposition certain of our legacy communities and the newly acquired Emeritus communities where economically advantageous. Certain of our communities may benefit from additions and expansions or from adding a new level of service for residents to meet the evolving needs of our customers. These Program Max projects include converting space from one level of care to another, reconfiguration of existing units, the addition of services that are not currently present or physical plant modifications. In 2014 we completed 16 projects which resulted in 396 net new units. We currently have 18 Program Max projects that have been approved, most of which have begun construction and are expected to generate 418 net new units.

The following table summarizes our actual 2014 and anticipated 2015 capital expenditures for our consolidated communities (dollars in millions):

	Actual 2014	Anticipated 2015 Range
Recurring(1)	$50.8	$75.0 - 77.0
EBITDA-enhancing / Major Projects(2)	109.2	210.0 - 215.0
Program Max(2)	94.4	125.0 - 175.0
Corporate, integration and other	49.8	108.0 - 117.0
Total capital expenditures	$304.2	$518.0 - 584.0

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

(2) Amounts shown are amounts of gross capital expenditures. Certain capital expenditures are subject to third party lessor funding. For the year ended December 31, 2014 we received $34.6 million of lessor reimbursements. For 2015 we anticipate receiving approximately $115.0 million - $170.0 million of lessor reimbursements for both categories in the table.

During 2015, we anticipate that our capital expenditures will be funded from cash on hand, cash flows from operations, lessor reimbursements in the amount of $115.0 million to $170.0 million, amounts drawn on construction loans and amounts drawn on our secured credit facility.

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

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

Our actual liquidity and capital funding requirements depend on numerous factors, including our operating results, the actual level of capital expenditures, our expansion, development and acquisition activity, general economic conditions and the cost of capital. Shortfalls in cash flows from operating results or other principal sources of liquidity may have an adverse impact on our ability to execute our business and growth strategies. Volatility in the credit and financial markets may also have an adverse impact on our liquidity by making it more difficult for us to obtain financing or refinancing. As a result, this may impact our ability to grow our business, maintain capital spending levels, expand certain communities, or execute other aspects of our business strategy. In order to continue some of these activities at historical or planned levels, we may incur additional indebtedness or lease financing to provide additional funding. There can be no assurance that any such additional financing will be available or on terms that are acceptable to us.

As of December 31, 2014, we are in compliance with the financial covenants of our outstanding debt and lease agreements.

Company Indebtedness, Long-Term Leases and Hedging Agreements

Indebtedness

As of December 31, 2014, we have three principal corporate-level debt obligations: our $500.0 million secured credit facility, our $316.3 million 2.75% convertible senior notes due 2018 and separate secured and unsecured letter of credit facilities providing for up to $98.7 million of letters of credit in the aggregate. The remainder of our indebtedness is generally comprised of non-recourse property-level mortgage financings. As of December 31, 2014 our outstanding property-level secured debt was $3.2 billion.

As a result of our acquisition of Emeritus, we assumed approximately $1.4 billion aggregate principal amount of existing mortgage indebtedness. The mortgage loans are collateralized by a total of 179 underlying communities, bear interest either at fixed rates at a weighted average of 6.06% per annum or at variable rates at a weighted average of 5.49% per annum (in each case, as of July 31, 2014), and have remaining maturities ranging from approximately three months to 33 years. In addition, we incurred $283.3 million of property-level debt primarily related to the financing of community acquisitions, the expansion of certain communities, the refinancing of existing debt and the releveraging of certain assets during 2014. Approximately $252.7 million of the new debt was issued at a fixed interest rate and the remaining $30.6 million was issued at variable interest rates. Refer to Note 8 to the consolidated financial statements for a detailed discussion of the significant new mortgage debt instruments and related terms.

As of December 31, 2014, we are in compliance with the financial covenants of our outstanding debt agreements.

Credit Facilities

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

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

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

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

As of December 31, 2014, we had $388.4 million of availability on our secured credit facility. We also had secured and unsecured letter of credit facilities of up to $98.7 million in the aggregate as of December 31, 2014. Letters of credit totaling $72.7 million had been issued under these facilities as of that date.

Convertible Debt

In June 2011, we completed a registered offering of $316.3 million aggregate principal amount of 2.75% convertible senior notes (the "Notes"). We received net proceeds of approximately $308.2 million after the deduction of underwriting commissions and offering expenses. We used a portion of the net proceeds to pay our cost of the convertible note hedge transactions described below, taking into account our proceeds from the warrant transactions described below, and used the balance of the net proceeds to repay existing outstanding debt.

The Notes are senior unsecured obligations and rank equally in right of payment to all of our other senior unsecured debt, if any. The Notes will be senior in right of payment to any of our debt which is subordinated by its terms to the Notes (if any). The Notes are also structurally subordinated to all debt and other liabilities and commitments (including trade payables) of our subsidiaries. The Notes are also effectively subordinated to our secured debt to the extent of the assets securing such debt.

The Notes bear interest at 2.75% per annum, payable semi-annually in cash. The Notes are convertible at an initial conversion rate of 34.1006 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $29.325 per share), subject to adjustment. On and after March 15, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time. In addition, Holders may convert their Notes at their option under the following circumstances: (i) during any fiscal quarter if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on the last day of such preceding fiscal quarter; (ii) during the five business day period after any five consecutive trading day period (the "measurement period"), in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such day; or (iii) upon the occurrence of specified corporate events. As of December 31, 2014, the Notes are not convertible. Unconverted Notes mature at par in June 2018.

Upon conversion, we will satisfy our conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock at our election. It is our current intent and policy to settle the principal amount of the Notes (or, if less, the amount of the conversion obligation) in cash upon conversion.

In addition, following certain corporate transactions, we will increase the conversion rate for a holder who elects to convert in connection with such transaction by a number of additional shares of common stock as set forth in the supplemental indenture governing the Notes.

In connection with the offering of the Notes, in June 2011, we entered into convertible note hedge transactions (the "Convertible Note Hedges") with certain financial institutions (the "Hedge Counterparties"). The Convertible Note Hedges cover, subject to customary anti-dilution adjustments, 10,784,315 shares of common stock. We also entered into warrant transactions with the Hedge Counterparties whereby we sold to the Hedge Counterparties warrants to acquire, subject to customary anti-dilution adjustments, up to 10,784,315 shares of common stock (the "Sold Warrant Transactions"). The warrants have a strike price of $40.25 per share, subject to customary anti-dilution adjustments.

The Convertible Note Hedges are expected to reduce the potential dilution with respect to common stock upon conversion of the Notes in the event that the price per share of common stock at the time of exercise is greater than the strike price of the Convertible Note Hedges, which corresponds to the initial conversion price of the Notes and is similarly subject to customary anti-dilution adjustments. If, however, the price per share of common stock exceeds the strike price of the Sold Warrant Transactions when they expire, there would be additional dilution from the issuance of common stock pursuant to the warrants.

The Convertible Note Hedges and Sold Warrant Transactions are separate transactions (in each case entered into by us and the Hedge Counterparties), are not part of the terms of the Notes and will not affect the holders' rights under the Notes. Holders of the Notes do not have any rights with respect to the Convertible Note Hedges or the Sold Warrant Transactions.

These hedging transactions had a net cost of approximately $31.9 million, which was paid from the proceeds of the Notes and recorded as a reduction of additional paid-in capital.

Long-Term Leases

As of December 31, 2014, we have 583 communities operated under long-term leases. The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in leased property revenue or the consumer price index.

As a result of our acquisition of Emeritus on July 31, 2014, we acquired entities that are lessees under operating, capital and financing leases covering 311 communities, as well as certain other leases such as office leases and leases associated with Emeritus' Nurse on Call business. The community leases contain customary terms, including assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants. In connection with the closing of our acquisition of Emeritus, we have entered into guarantees of certain of these leases.

For the year ended December 31, 2014, our minimum annual cash lease payments for our capital and financing leases and operating leases were $139.2 million and $328.5 million, respectively. For the year ending December 31, 2015, we will be required to make approximately $247.0 million and $396.0 million of payments in connection with our existing capital and financing leases and operating leases, respectively.

As of December 31, 2014, we are in compliance with the financial covenants of our long-term leases.

Derivative Instruments

In the normal course of business, we have entered into certain interest rate protection agreements to effectively manage the risk above certain interest rates for a portion of our variable rate debt. As of December 31, 2014, we have $846.3 million in aggregate notional amount of interest rate caps and $136.6 million of variable rate debt, excluding our secured credit facility and capital lease obligations, that is not subject to any cap or swap agreements.

Contractual Commitments

The following table presents a summary of our material indebtedness, including the related interest payments, lease and other contractual commitments, as of December 31, 2014.

		Payments Due during the Year Ending December 31,					
	Total	2015	2016	2017	2018	2019	Thereafter
	(dollars in millions)						

Contractual Obligations:							
Long-term debt and line of credit obligations[1]	$4,305.2	$314.7	$219.2	$696.5	$1,391.9	$208.1	$1,474.8
Capital and financing lease obligations[2]	5,055.7	247.0	323.4	280.1	283.8	291.5	3,629.9
Operating lease obligations[2]	3,127.5	396.0	396.0	381.7	366.0	348.1	1,239.7
Refundable entrance fee obligations[3]	25.1	3.4	3.4	3.4	3.4	3.4	8.1
Total contractual obligations	$12,513.5	$961.1	$942.0	$1,361.7	$2,045.1	$851.1	$6,352.5
Total commercial construction commitments	$97.5	$75.7	$21.8	$—	$—	$—	$—

(1) Includes line of credit and contractual interest for all fixed-rate obligations and assumes interest on variable rate instruments at the December 31, 2014 rate.

(2) Reflects future cash payments after giving effect to non-contingent lease escalators and assumes payments on variable rate instruments at the December 31, 2014 rate.

(3) Future refunds of entrance fees are estimated based on historical payment trends. These refund obligations are generally offset by proceeds received from resale of the vacated apartment units. Historically, proceeds from resales of entrance fee units each year generally offset refunds paid and generate excess cash to us.

The foregoing amounts exclude outstanding letters of credit of $72.7 million as of December 31, 2014.

Impacts of Inflation

Resident fees from the communities we own or lease and management fees from communities we manage for third parties or unconsolidated ventures in which we have an ownership interest are our primary sources of revenue. These revenues are affected by the amount of monthly resident fee rates and community occupancy rates. The rates charged are highly dependent on local market conditions and the competitive environment in which our communities operate. Substantially all of our retirement center, assisted living, and CCRC residency agreements allow for adjustments in the monthly fee payable not less frequently than every 12 or 13 months which enables us to seek increases in monthly fees due to inflation, increased levels of care or other factors. Any pricing increase would be subject to market and competitive conditions and could result in a decrease in occupancy in the communities. We believe, however, that our ability to periodically adjust the monthly fee serves to reduce the adverse effect of inflation. In addition, employee compensation expense is a principal element of facility operating costs and is also dependent upon local market conditions. There can be no assurance that resident fees will increase or that costs will not increase due to inflation or other causes.

At December 31, 2014, approximately $962.9 million of our indebtedness, excluding our secured credit facility, bears interest at floating rates. We have mitigated our exposure to floating rates by using interest rate caps under our debt arrangements. Inflation, and its impact on floating interest rates, could affect the amount of interest payments due on our secured credit facility and other variable rate debt instruments.

Off-Balance Sheet Arrangements

As of December 31, 2014, we do not have an interest in any "off-balance sheet arrangements" (as defined in Item 303(a)(4) of Regulation S-K) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

We own interests in certain unconsolidated ventures as described under Note 5 to the consolidated financial statements. Except in limited circumstances, our risk of loss is limited to our investment in each venture. We also own interests in certain other unconsolidated ventures that are not considered variable interest entities. The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures.

Non-GAAP Financial Measures

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

EBITDA, Cash From Facility Operations and Facility Operating Income, as set forth below.

Adjusted EBITDA

Definition of Adjusted EBITDA

We define Adjusted EBITDA as follows:

Net income (loss) before:

provision (benefit) for income taxes;

non-operating (income) expense items;

(gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination);

depreciation and amortization (including non-cash impairment charges);

straight-line lease expense (income), net of amortization of (above) below market rents;

amortization of deferred gain;

amortization of deferred entrance fees;

non-cash stock-based compensation expense; and

change in future service obligation;

and including:

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

Management's Use of Adjusted EBITDA

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

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

Limitations of Adjusted EBITDA

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

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

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

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

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

The table below shows the reconciliation of our net loss to Adjusted EBITDA for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Years Ended December 31[1],		
	2014	2013	2012
Net loss	$(149,426)	$(3,584)	$(66,467)
(Benefit) provision for income taxes	(181,305)	1,756	1,519
Other non-operating income	(7,235)	(2,725)	(593)
Equity in (earnings) loss of unconsolidated ventures	(171)	(1,484)	3,488
Debt modification and extinguishment costs	6,387	1,265	221
Interest expense:			
Debt	128,002	96,131	98,183
Capital and financing lease obligations	109,998	25,194	30,155
Amortization of deferred financing costs and debt (premium) discount	7,477	17,054	18,081
Change in fair value of derivatives	2,711	(980)	364
Interest income	(1,343)	(1,339)	(4,012)
(Loss) income from operations	(84,905)	131,288	80,939
Gain on facility lease termination	—	—	(11,584)
Loss on acquisition	—	—	636
Depreciation and amortization	537,035	268,757	252,281
Asset impairment	9,992	12,891	27,677
Straight-line lease expense	1,439	2,597	6,668
Amortization of (above) below market lease, net	(3,444)	—	—
Amortization of deferred gain	(4,372)	(4,372)	(4,372)
Amortization of entrance fees	(21,220)	(29,009)	(25,362)
Non-cash stock-based compensation expense	28,299	25,978	25,520
Change in future service obligation	670	(1,917)	2,188
Entrance fee receipts[2]	53,046	92,331	82,705
Entrance fee disbursements	(25,865)	(35,325)	(27,356)
Adjusted EBITDA	$490,675	$463,219	$409,940

(1) The calculation of Adjusted EBITDA includes integration, transaction and EMR roll-out costs of $146.4 million, $14.5 million and $23.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Cash From Facility Operations

Definition of Cash From Facility Operations

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

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

changes in operating assets and liabilities;

deferred interest and fees added to principal;

refundable entrance fees received;

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

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

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

gain (loss) on facility lease termination;

recurring capital expenditures, net;

distributions from unconsolidated ventures from cumulative share of net earnings;

CFFO from unconsolidated ventures; and

other.

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

Management's Use of Cash From Facility Operations

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

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

Limitations of Cash From Facility Operations

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

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

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

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

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

The table below shows the reconciliation of net cash provided by operating activities to CFFO for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Years Ended December 31[1],		
	2014	2013	2012
Net cash provided by operating activities	$242,652	$366,121	$290,969
Changes in operating assets and liabilities	37,099	(33,198)	(20,698)
Refundable entrance fees received[2][3]	20,342	48,140	42,600
Entrance fee refunds disbursed	(25,865)	(35,325)	(27,356)
Recurring capital expenditures, net	(50,762)	(42,901)	(38,306)
Lease financing debt amortization with fair market value or no purchase options	(28,618)	(13,927)	(12,120)
Distributions from unconsolidated ventures from cumulative share of net earnings	(1,840)	(2,691)	(1,507)
CFFO from unconsolidated ventures	25,334	7,804	5,376
Cash From Facility Operations	$218,342	$294,023	$238,958

(1) The calculation of Cash From Facility Operations includes integration, transaction and EMR roll-out costs of $146.4 million, $14.5 million and $23.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Entrance fee receipts include promissory notes issued to us by the resident in lieu of a portion of the entrance fees due. Notes issued (net of collections) for the years ended December 31, 2014, 2013 and 2012 were $9.3 million, $1.4 million and $0.2 million, respectively.

(3) Total entrance fee receipts for the year ended December 31, 2014, 2013 and 2012 were $53.0 million, $92.3 million and $82.7 million, respectively, including $32.7 million, $44.2 million and $40.1 million, respectively, of non-refundable entrance fee receipts included in net cash provided by operating activities.

Facility Operating Income

Definition of Facility Operating Income

We define Facility Operating Income as follows:

Net income (loss) before:

provision (benefit) for income taxes;

non-operating (income) expense items;

(gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination);

depreciation and amortization (including non-cash impairment charges);

facility lease expense;

general and administrative expense, including non-cash stock-based compensation expense;

transaction costs;

change in future service obligation;

- amortization of deferred entrance fee revenue; and

- management fees.

Management's Use of Facility Operating Income

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

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

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

Limitations of Facility Operating Income

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

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

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

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

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

The table below shows the reconciliation of net loss to Facility Operating Income for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net loss	$(149,426)	$(3,584)	$(66,467)
(Benefit) provision for income taxes	(181,305)	1,756	1,519
Other non-operating income	(7,235)	(2,725)	(593)
Equity in (earnings) loss of unconsolidated ventures	(171)	(1,484)	3,488
Debt modification and extinguishment costs	6,387	1,265	221
Interest expense:			
Debt	128,002	96,131	98,183
Capital and financing lease obligations	109,998	25,194	30,155
Amortization of deferred financing costs and debt (premium) discount	7,477	17,054	18,081
Change in fair value of derivatives	2,711	(980)	364
Interest income	(1,343)	(1,339)	(4,012)
(Loss) income from operations	(84,905)	131,288	80,939
Gain on facility lease termination	—	—	(11,584)
Depreciation and amortization	537,035	268,757	252,281
Asset impairment	9,992	12,891	27,677
Loss on acquisition	—	—	636
Facility lease expense	323,830	276,729	284,025
General and administrative (including non-cash stock-based compensation expense)	280,267	180,627	178,829
Transaction costs	66,949	3,921	—
Change in future service obligation	670	(1,917)	2,188
Amortization of entrance fees	(21,220)	(29,009)	(25,362)
Management fees	(42,239)	(31,125)	(30,786)
Facility Operating Income	$1,070,379	$812,162	$758,843

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to market risks from changes in interest rates charged on our credit facilities, other floating-rate indebtedness and lease payments subject to floating rates. The impact on earnings and the value of our long-term debt and lease payments are subject to change as a result of movements in market rates and prices. As of December 31, 2014, we had approximately $2.6 billion of long-term fixed rate debt, $962.9 million of long-term variable rate debt, excluding our secured credit facility, and $2.6 billion of capital and financing lease obligations. As of December 31, 2014, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 5.0% (calculated using an imputed interest rate of 7.5% for our $316.3 million 2.75% convertible senior notes due 2018).

We enter into certain interest rate cap agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of December 31, 2014, $2.6 billion, or 72.6%, of our long-term debt, excluding our secured credit facility and capital and financing lease obligations, has fixed rates. As of December 31, 2014, $826.2 million, or 23.5%, of our long-term debt, excluding our secured credit facility and capital and financing lease obligations, is subject to interest rate cap agreements. The remaining $136.6 million, or 3.9%, of our debt is variable rate debt, not subject to any interest rate cap or swap agreements. A change in interest rates would have impacted our annual interest expense related to all outstanding variable rate debt, excluding our secured credit facility and capital and financing lease obligations, as follows (after consideration of hedging instruments currently in place): a 100 basis point increase in interest rates would have an impact of $9.5 million, a 500 basis point increase in interest rates would have an impact of $40.8 million and a 1,000 basis point increase in interest rates would have an impact of $48.2 million.

Item 8. Financial Statements and Supplementary Data.

BROOKDALE SENIOR LIVING INC.

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Brookdale Senior Living Inc.

We have audited the accompanying consolidated balance sheets of Brookdale Senior Living Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the accompanying index to the financial statements. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
24 February 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Brookdale Senior Living Inc.

We have audited Brookdale Senior Living Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Assessment of Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Emeritus Corporation, which is included in the 2014 consolidated financial statements of the Company since its acquisition on July 31, 2014 and which constituted $6.2 billion and $4.4 billion of total assets and liabilities, respectively, as of December 31, 2014 and $785.5 million of revenues for the period then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Emeritus Corporation.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 24, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
24 February 2015

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

	December 31, 2014	2013
Assets		
Current assets		
Cash and cash equivalents	$104,083	$58,511
Cash and escrow deposits – restricted	38,862	38,191
Accounts receivable, net	149,730	104,262
Deferred tax asset	84,199	17,643
Prepaid expenses and other current assets, net	237,915	76,255
Total current assets	614,789	294,862
Property, plant and equipment and leasehold intangibles, net	8,389,505	3,895,475
Cash and escrow deposits – restricted	56,376	57,611
Investment in unconsolidated ventures	312,925	44,103
Goodwill	736,805	109,553
Other intangible assets, net	154,773	158,757
Other assets, net	256,190	177,396
Total assets	$10,521,363	$4,737,757
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$159,922	$168,592
Current portion of capital and financing lease obligations	112,343	33,362
Trade accounts payable	76,314	65,840
Accrued expenses	422,654	209,479
Refundable entrance fees and deferred revenue	101,613	388,400
Tenant security deposits	4,916	5,171
Total current liabilities	877,762	870,844
Long-term debt, less current portion	3,356,808	2,138,162
Capital and financing lease obligations, less current portion	2,536,883	266,462
Line of credit	100,000	30,000
Deferred entrance fee revenue	5,877	86,862
Deferred liabilities	250,469	154,870
Deferred tax liability	243,474	81,299
Other liabilities	267,849	88,321
Total liabilities	7,639,122	3,716,820
Preferred stock, $0.01 par value, 50,000,000 shares authorized at December 31, 2014 and 2013; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 400,000,000 and 200,000,000 shares authorized at December 31, 2014 and 2013, respectively; 189,466,395 and 130,155,012 shares issued and 187,037,994 and 127,726,611 shares outstanding (including 3,552,143 and 3,372,937 unvested restricted shares), respectively	1,870	1,277
Additional paid-in-capital	4,034,655	2,025,471
Treasury stock, at cost; 2,428,401 shares at December 31, 2014 and 2013	(46,800)	(46,800)
Accumulated deficit	(1,108,001)	(959,011)
Total Brookdale Senior Living Inc. stockholders' equity	2,881,724	1,020,937
Noncontrolling interest	517	—
Total equity	2,882,241	1,020,937

Total liabilities and equity	$10,521,363	$4,737,757

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2014	2013	2012
Revenue			
Resident fees	$3,301,297	$2,515,033	$2,412,936
Management fees	42,239	31,125	30,786
Reimbursed costs incurred on behalf of managed communities	488,170	345,808	