

Brookdale Senior Living Inc.
Form 10-Q
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number: 001-32641

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

Delaware
(State or other jurisdiction
of incorporation or organization)

20-3068069
(I.R.S. Employer Identification No.)

111 Westwood Place, Suite 200, Brentwood, Tennessee
(Address of principal executive offices)

37027
(Zip Code)

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

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

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

Large accelerated filer

Accelerated
filer

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

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

As of November 3, 2008, 101,385,058 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

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FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2008	December 31, 2007
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 55,885	\$ 100,904
Cash and escrow deposits — restricted	79,187	76,962
Accounts receivable, net	85,839	66,807
Deferred tax asset	13,040	13,040
Prepaid expenses and other current assets, net	30,738	34,122
Total current assets	264,689	291,835
Property, plant and equipment and leasehold intangibles, net	3,716,676	3,760,453
Cash and escrow deposits — restricted	23,559	17,989
Investment in unconsolidated ventures	33,214	41,520
Goodwill	325,267	325,453
Other intangible assets, net	238,932	260,534
Other assets, net	84,589	113,838
Total assets	\$ 4,686,926	\$ 4,811,622
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 266,661	\$ 18,007
Line of credit	84,757	—
Trade accounts payable	30,649	37,137
Accrued expenses	173,924	156,253
Refundable entrance fees and deferred revenue	251,827	254,582
Tenant security deposits	30,646	31,891
Dividends payable	25,759	51,897
Total current liabilities	864,223	549,767
Long-term debt, less current portion	2,115,905	2,119,217
Line of credit	—	198,000
Deferred entrance fee revenue	75,958	77,477
Deferred liabilities	132,144	119,726
Deferred tax liability	208,918	266,583
Other liabilities	54,576	61,314
Total liabilities	3,451,724	3,392,084
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$.01 par value, 50,000,000 shares authorized at September 30, 2008 and December 31, 2007; no shares issued and outstanding	—	—
	1,052	1,050

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Common stock, \$.01 par value, 200,000,000 shares authorized at September 30, 2008 and December 31, 2007; 106,404,179 and 104,962,211 shares issued and 105,192,878 and 104,962,211 shares outstanding (including 3,843,383 and 3,020,341 unvested restricted shares), respectively

Additional paid-in-capital	1,689,177	1,752,581
Treasury stock, at cost; 1,211,301 shares at September 30, 2008	(29,187)	—
Accumulated deficit	(424,651)	(332,692)
Accumulated other comprehensive loss	(1,189)	(1,401)
Total stockholders' equity	1,235,202	1,419,538
Total liabilities and stockholders' equity	\$ 4,686,926	\$ 4,811,622

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue				
Resident fees	\$ 480,750	\$ 463,101	\$ 1,435,522	\$ 1,365,061
Management fees	1,527	1,493	5,604	4,777
Total revenue	482,277	464,594	1,441,126	1,369,838
Expense				
Facility operating expense (excluding depreciation and amortization of \$45,670, \$58,913, \$143,765 and \$177,357, respectively)	322,601	294,997	934,186	861,672
General and administrative expense (including non-cash stock-based compensation expense of \$6,737, \$7,138, \$23,368 and \$26,150, respectively)	32,948	34,733	109,633	111,144
Hurricane and named tropical storms expense	3,613	—	3,613	—
Facility lease expense	67,017	67,708	202,028	203,365
Depreciation and amortization	67,066	79,235	207,882	234,690
Total operating expense	493,245	476,673	1,457,342	1,410,871
Loss from operations	(10,968)	(12,079)	(16,216)	(41,033)
Interest income	1,383	1,695	6,169	5,077
Interest expense				
Debt	(37,599)	(38,472)	(110,894)	(107,002)
Amortization of deferred financing costs	(3,004)	(1,151)	(6,940)	(4,878)
Change in fair value of derivatives and amortization	(8,454)	(43,731)	(17,344)	(30,893)
Loss on extinguishment of debt	—	—	(3,052)	(803)
Equity in earnings (loss) of unconsolidated ventures	358	(309)	(750)	(2,362)
Other non-operating income (expense)	69	—	(424)	238
Loss before income taxes	(58,215)	(94,047)	(149,451)	(181,656)
Benefit for income taxes	22,338	35,125	54,996	68,408
Loss before minority interest	(35,877)	(58,922)	(94,455)	(113,248)
Minority interest	—	(5)	—	506
Net loss	\$ (35,877)	\$ (58,927)	\$ (94,455)	\$ (112,742)
Basic and diluted loss per share	\$ (0.36)	\$ (0.58)	\$ (0.93)	\$ (1.11)
Weighted average shares used in computing basic and diluted loss per share	101,398	101,564	101,748	101,463
Dividends declared per share	\$ 0.25	\$ 0.50	\$ 0.75	\$ 1.45

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities		
Net loss	\$ (94,455)	\$ (112,742)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash portion of loss on extinguishment of debt	3,052	—
Depreciation and amortization	214,822	239,568
Minority interest	—	(506)
Gain on sale of assets	—	(457)
Equity in loss of unconsolidated ventures	750	2,362
Change in future service obligations	—	1,320
Distributions from unconsolidated ventures from cumulative share of net earnings	1,918	1,429
Amortization of deferred gain	(3,257)	(3,255)
Amortization of entrance fees	(16,527)	(14,222)
Proceeds from deferred entrance fee revenue	15,210	14,315
Deferred income tax benefit	(57,243)	(68,715)
Change in deferred lease liability	15,675	18,815
Change in fair value of derivatives and amortization	17,344	30,893
Non-cash stock-based compensation	23,368	26,150
Changes in operating assets and liabilities:		
Accounts receivable, net	(18,165)	(5,607)
Prepaid expenses and other assets, net	1,263	(1,133)
Accounts payable and accrued expenses	3,051	8,368
Tenant refundable fees and security deposits	(439)	5,404
Other	987	(3,578)
Net cash provided by operating activities	107,354	138,409
Cash Flows from Investing Activities		
Decrease in lease security deposits and lease acquisition deposits, net	2,416	1,806
Increase in cash and escrow deposits — restricted	(7,795)	(53,393)
Additions to property, plant and equipment and leasehold intangibles, net of related payables	(134,179)	(113,557)
Acquisition of assets, net of related payables and cash received	(5,105)	(167,621)
Payment on (issuance of) notes receivable, net	39,661	(13,714)
Investment in unconsolidated ventures	(1,163)	(1,617)
Distributions received from unconsolidated ventures	300	1,819
Proceeds from sale of unconsolidated venture	4,165	—
Net cash used in investing activities	(101,700)	(346,277)
Cash Flows from Financing Activities		
Proceeds from debt	467,769	395,276
Repayment of debt and capital lease obligation	(229,210)	(54,246)
Buyout of capital lease obligation	—	(51,114)
Proceeds from line of credit	264,757	451,500

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Repayment of line of credit	(378,000)	(384,000)
Payment of dividends	(103,696)	(144,990)
Purchase of treasury stock	(29,187)	—
Payment of financing costs, net of related payables	(13,720)	(10,248)
Other	(1,373)	(815)
Refundable entrance fees:		
Proceeds from refundable entrance fees	15,185	17,018
Refunds of entrance fees	(14,331)	(15,488)
Recouping and payment of swap termination	(27,627)	—
Cash portion of loss on extinguishment of debt	(1,240)	—
Net cash (used in) provided by financing activities	(50,673)	202,893
Net decrease in cash and cash equivalents	(45,019)	(4,975)
Cash and cash equivalents at beginning of period	100,904	68,034
Cash and cash equivalents at end of period	\$ 55,885	\$ 63,059

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company as of September 30, 2008, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management’s discussion and analysis of financial condition and results of operations, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission.

In 2006, the Company adopted EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, and as a result, consolidated the operations of three limited partnerships controlled by the Company. In 2006, the Company purchased a community from one of the limited partnerships and the partnership was liquidated. During 2007, the Company purchased the remaining communities and the limited partnerships were liquidated. As a result, the Company does not have minority interest reflected on the condensed consolidated balance sheet as of September 30, 2008.

Revenue Recognition

Resident Fees

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

Entrance Fees

Certain of the Company's communities have residency agreements which require the resident to pay an upfront fee prior to occupying the community. In addition, in connection with the Company's MyChoice program, new and existing residents are allowed to pay additional entrance fee amounts in return for a reduced monthly service fee. The non-refundable portion of the entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or in certain agreements, upon

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the resale of a comparable unit or 12 months after the resident vacates the unit. In such instances the refundable portion of the fee is not amortized and included in refundable entrance fees and deferred revenue.

Certain contracts require the refundable portion of the entrance fee plus a percentage of the appreciation of the unit, if any, to be refunded only upon resale of a comparable unit ("contingently refundable"). Upon resale the Company may receive reoccupancy proceeds in the form of additional contingently refundable fees, refundable fees, or non-refundable fees. The Company estimates the amount of reoccupancy proceeds to be received from additional contingently refundable fees or non-refundable fees and records such amount as deferred revenue. The deferred revenue is amortized over the life of the community and was approximately \$66.7 million and \$69.7 million at September 30, 2008 and December 31, 2007, respectively. All remaining contingently refundable fees not recorded as deferred revenue and amortized are included in refundable entrance fees and deferred revenue.

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

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

Community Fees

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

Management Fees

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

Purchase Accounting

In determining the allocation of the purchase price of companies and communities to net tangible and identified intangible assets acquired and liabilities assumed, the Company makes estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The Company allocates the purchase price of communities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations. The determination of fair value involves the use of significant judgment and estimation. The Company determines fair values as follows:

Current assets and current liabilities assumed are valued at carryover basis which approximates fair value.

Property, plant and equipment are valued utilizing discounted cash flow projections that assume certain future revenue and costs, and considers capitalization and discount rates using current market conditions.

The Company allocates a portion of the purchase price to the value of resident leases acquired based on the difference between the communities valued with existing in-place leases adjusted to market rental rates and the communities valued with current leases in place based on current contractual terms. Factors management considers in its analysis

include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar resident leases. In estimating carrying costs, management includes estimates of lost rentals during the lease-up period and estimated costs to execute similar leases. The value of in-place leases is amortized to expense over the remaining initial term of the respective leases.

Leasehold operating intangibles are valued utilizing discounted cash flow projections that assume certain future revenues and costs over the remaining lease term. The value assigned to leasehold operating intangibles is amortized on a straight-line basis over the lease term.

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Community purchase options are valued at the estimated value of the underlying community less the cost of the option payment discounted at current market rates. Management contracts and other acquired contracts are valued at a multiple of management fees and operating income and amortized over the estimated term of the agreement.

Long-term debt assumed is recorded at fair market value based on the current market rates and collateral securing the indebtedness.

Capital lease obligations are valued based on the present value of the minimum lease payments applying a discount rate equal to the Company's estimated incremental borrowing rate at the date of acquisition.

Deferred entrance fee revenue is valued at the estimated cost of providing services to residents over the terms of the current contracts to provide such services. Refundable entrance fees are valued at cost pursuant to the resident lease plus the resident's share of any appreciation of the community unit at the date of acquisition, if applicable.

A deferred tax liability is recognized at statutory rates for the difference between the book and tax bases of the acquired assets and liabilities.

The excess of the fair value of liabilities assumed and cash paid over the fair value of assets acquired is allocated to goodwill.

Fair Value Measurements

FASB Statement No. 157, Fair Value Measurement ("SFAS 157") establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

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

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

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

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

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

Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased and managed communities under a master insurance program, the Company's current policies provide for deductibles

of \$3.0 million for each claim. As a result, the Company is, in effect, self-insured for most claims. In addition, the Company maintains a self-insured workers compensation program and a self-insured employee medical program for amounts below excess loss coverage amounts, as defined. The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third party administrator estimates, consultants, advice from legal counsel and industry data, and adjusts accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information is available.

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Treasury Stock

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

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157. This Statement provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted SFAS 157 in the current year and applied the guidance in evaluating the fair value of its derivatives as well as provided certain disclosures to comply with its provisions.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115 ("SFAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 in the current year and the adoption had no impact in the current quarter condensed consolidated financial statements.

In June 2007, the Emerging Issues Task Force ("EITF") ratified EITF 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 requires that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in-capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 is effective for fiscal years after December 15, 2007 (note 11).

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Statement is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 ("SFAS 160"). SFAS 160 was issued to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary

and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 160 to have an impact on the consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133 (“SFAS 161”). SFAS 161 amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and

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related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The Company will adopt SFAS 161 in January 2009.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and provides for enhanced disclosures regarding intangible assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The disclosure provisions are effective as of the adoption date and the guidance for determining the useful life applies prospectively to all intangible assets acquired after the effective date. Early adoption is prohibited. The Company does not expect the adoption of FSP FAS 142-3 to have an impact on the consolidated financial statements.

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect that SFAS 162 will result in a change in current practice.

In June 2008, the FASB issued Staff Position EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-06-1"). FSP EITF 03-06-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method in SFAS No. 128, Earnings per Share. FSP EITF 03-06-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years and requires all prior-period earnings per share data to be adjusted retrospectively. The Company is currently assessing the potential impact of FSP EITF 03-06-1 on the consolidated financial statements.

Dividends

On September 30, 2008, the Company's board of directors declared a quarterly cash dividend of \$0.25 per share of common stock, or an aggregate of \$25.8 million, for the quarter ended September 30, 2008. The \$0.25 per share dividend was paid on October 17, 2008 to holders of record of the Company's common stock on October 10, 2008.

Reclassifications

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

3. Stock-Based Compensation

Compensation expense in connection with grants of restricted stock of \$6.7 million and \$7.1 million was recorded for the three months ended September 30, 2008 and 2007, respectively, and \$23.4 million and \$26.2 million of such expense was recorded for the nine months ended September 30, 2008 and 2007, respectively. For the quarters ended September 30, 2008 and 2007, compensation expense was calculated net of forfeitures estimated from 0% - 6% and 5%, respectively, of the shares granted.

On February 7, 2008, the Company entered into a Separation Agreement and General Release with an officer that accelerated the vesting provision of his restricted stock grants as of March 3, 2008 upon satisfying certain conditions. As a result of the modification, the previous compensation expense related to these grants was reversed and a charge based on the fair value of the stock at the modification date was recorded over the modified vesting period. The net impact of the adjustment was \$2.7 million of additional expense for the quarter ended March 31, 2008.

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For all awards with graded vesting other than awards with performance-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis over the requisite service period. For graded-vesting awards with performance-based vesting conditions, total compensation expense is recognized over the requisite service period for each separately vesting tranche of the award as if the award is, in substance, multiple awards once the performance target is deemed probable of achievement. Performance goals are evaluated quarterly. If such goals are not ultimately met or it is not probable the goals will be achieved, no compensation expense is recognized and any previously recognized compensation expense is reversed. During the current period the Company reversed approximately \$1.2 million of previously recognized compensation expense related to performance-based awards granted in 2006 and 2007.

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

	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2008	160,000	\$ 23.17 – 25.95	\$ 2,967
Three months ended June 30, 2008	260,000	24.31	6,332
Three months ended September 30, 2008	1,414,000	12.50 – 18.22	20,851

The Company has an employee stock purchase plan for all eligible employees. The plan became effective on October 1, 2008. Under the plan, eligible employees of the Company can purchase shares of the Company's common stock on a quarterly basis at a discounted price through accumulated payroll deductions. Each eligible employee may elect to deduct up to 15% of his or her base pay each quarter. Subject to certain limitations specified in the plan, on the last trading date of each calendar quarter, the amount deducted from each participant's pay over the course of the quarter will be used to purchase whole shares of the Company's common stock at a purchase price equal to 90% of the closing market price on the New York Stock Exchange on such date. Initially, the Company has reserved 1,000,000 shares of common stock for issuance under the plan. The employee stock purchase plan also contains an "evergreen" provision that automatically increases the number of shares reserved for issuance under the plan by 200,000 shares on the first day of each calendar year beginning January 1, 2010.

4. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the nine months ended September 30, 2008 presented on an operating segment basis (dollars in thousands):

	Retirement Centers	Assisted Living	CCRCs	Total
Balance at December 31, 2007	\$ 7,642			