Brookdale Senior Living Inc.
Form S-1
June 15, 2006
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As filed with the Securities and Exchange Commission on June 14, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware	8050	20-3068069
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

330 North Wabash Avenue
Suite 1400
Chicago, Illinois 60611
(312) 977-3700

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Deborah C. Paskin, Esq.
Executive Vice President, Secretary and General Counsel
Brookdale Senior Living Inc.
330 North Wabash Avenue
Suite 1400
Chicago, Illinois 60611
(312) 977-3700

(Name, Address, Including Zip Code, and Telephone
Number, Including Area Code, of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Calculation of Registration Fee

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE(1)
Common Stock, par value $0.01 per share	$902,750,000	$96,595

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(2) Includes offering price of shares that the underwriters have the option to purchase from the selling stockholder to cover over-allotments, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state or jurisdiction where the offer or sale is not permitted.

Subject to completion, dated June 14, 2006.

PROSPECTUS

Shares

Brookdale Senior Living Inc.

Common Stock

Brookdale Senior Living Inc. is offering of the shares to be sold in this offering. The selling stockholder identified in this prospectus is offering an additional shares. Brookdale Senior Living Inc. will not receive any of the proceeds from the sale of the shares being sold by the selling stockholder. After this offering, new investors will own approximately % of the Company's common stock and funds managed by affiliates of Fortress Investment Group LLC will beneficially own over % of the Company's common stock. These funds are not selling any shares of common stock in this offering.

Our common stock is listed on the New York Stock Exchange under the symbol ''BKD''. The last reported sale price of the common stock on, 2006, was $ per share.

Closing of this offering will occur concurrently with, and is conditioned upon, the consummation of the ARC Merger, as described in this prospectus. In connection with the ARC Merger, we received a $1.3 billion equity commitment from a fund managed by an affiliate of Fortress. This offering will reduce the amount of the fund's equity commitment by $650.0 million. We intend to use a portion of the net proceeds received from the shares to be sold in this offering together with the proceeds to be received from the fund to consummate the ARC Merger.

See ''Risk Factors'' on page 16 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Brookdale	$	$
Proceeds, before expenses, to the selling stockholder	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from the selling stockholder at the public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on, 2006.

Goldman, Sachs & Co. Joint Bookrunning Lead Manager	Citigroup Joint Lead Manager	Lehman Brothers Joint Bookrunning Lead Manager
JPMorgan	UBS Investment Bank	Cohen & Steers

Prospectus dated , 2006.

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This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities offered hereby in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies. No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus in connection with the offer contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sales made hereunder shall under any circumstances create an implication that there has been no change in our affairs or that of our subsidiaries since the date hereof.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the section entitled ‘‘Risk Factors’’ and our financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless the context suggests otherwise, references in this prospectus to ‘‘Brookdale,’’ the ‘‘Company,’’ ‘‘we,’’ ‘‘us’’ and ‘‘our’’ refer to Brookdale Senior Living Inc. and its subsidiaries and predecessor entities. References in this prospectus to ‘‘Fortress’’ refer to Fortress Investment Group LLC, affiliates of which manage funds that are stockholders of ours, and certain of its affiliates. References in this prospectus to ‘‘ARC’’ refer to American Retirement Corporation. Unless the context suggests otherwise, references in this prospectus to our financial and operating information is intended to be pro forma for the formation transactions described in ‘‘Business—History.’’ Unless the context suggests otherwise, references in this prospectus to our operating information ‘‘as of the date of this prospectus’’ include the Recent Acquisitions described in ‘‘—Recent Acquisitions’’ that have closed as of the date of this prospectus, and do not include the Recent Acquisitions that have not closed as of the date of this prospectus or the ARC Merger as described in ‘‘Business—ARC Merger’’.

Overview

Upon consummation of the merger with ARC, or the ARC Merger, as described in this prospectus, we will become the largest operator of senior living facilities in the United States based on total capacity with over 530 facilities in 33 states and the ability to serve over 50,000 residents. On a pro forma basis for the ARC Merger and the Recent Acquisitions, as of March 31, 2006, we would have operated 97 independent living facilities with 18,890 units/beds, 406 assisted living facilities with 21,007 units/beds, 27 continuing care retirement communities, or CCRCs, with 9,874 units/beds and three skilled nursing facilities with 395 units/beds. We believe that the consummation of the ARC Merger and the Recent Acquisitions will bring us significant additional incremental revenue and help us to attain additional synergies and cost savings.

Brookdale Senior Living Inc.

Prior to the consummation of the ARC Merger, as of the date of this prospectus, we operate 450 facilities in 32 states and have the ability to serve over 34,000 residents. We offer our residents access to a full continuum of services across all sectors of the senior living industry. As of the date of this prospectus, we operate 77 independent living facilities with 13,733 units/beds, 365 assisted living facilities with 17,170 units/beds, seven CCRCs with 3,084 units/beds (including 817 resident-owned cottages on our CCRC campuses managed by us) and one skilled nursing facility with 82 units/beds. The majority of our units/beds are located in campus settings or facilities containing multiple services, including CCRCs. As of March 31, 2006, our facilities were on average 90.2% occupied. We generate over 96% of our revenues from private pay customers, which limits our exposure to government reimbursement risk. In addition, we control all financial and operational decisions regarding our facilities through property ownership and long-term leases. We believe 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 and health care services. For the three months ended March 31, 2006, 33.7% of our revenues were generated from owned facilities, 65.8% from leased facilities and 0.5% from management fees from facilities we operate on behalf of third parties and affiliates.

We plan to grow our revenue and operating income through a combination of: (i) organic growth in our existing portfolio; (ii) acquisitions of additional operating companies and facilities; and (iii) the realization of economies of scale, including the continuing realization of those created by the combination of Brookdale Living Communities, Inc., or BLC, and Alterra Healthcare Corporation, or Alterra, which occurred in September 2005, and those that we expect to be created as a result of the ARC Merger. Given the size and breadth of our nationwide platform, we believe that we are well

positioned to continue to invest in a broad spectrum of assets in the senior living industry, including independent living, assisted living and CCRC assets. For the period January 2001 through the date of this prospectus, we have begun leasing or acquired the ownership or management of 122 senior living facilities (not including those facilities we acquired and subsequently disposed of) with approximately 14,900 units/beds. Since the completion of our initial public offering in November 2005, as of the date of this prospectus but not taking into account the ARC Merger, we have purchased or entered into definitive agreements to purchase $788.6 million in senior housing assets representing 107 facilities (which includes the acquisition of 12 facilities that we previously operated pursuant to long-term leases) with 9,495 units/beds. See ‘‘—Recent Acquisitions’’.

We believe that the senior living industry is the preferred alternative to meet the growing demand for a cost-effective residential setting in which to care for the elderly who cannot, or as a lifestyle choice choose not to, live independently due to physical or cognitive frailties and who may, as a result, require assistance with some of the activities of daily living or the availability of nursing or other medical care. Housing alternatives for seniors include a broad spectrum of senior living service and care options, including independent living, assisted living, memory care and skilled nursing care. More specifically, senior living consists of a combination of housing and the availability of 24-hour a day personal support services and assistance with certain activities of daily living.

Our facilities are predominantly concentrated in the independent and assisted living portion of the senior housing continuum as depicted below:

SENIOR HOUSING CONTINUUM OF CARE

We believe that factors contributing to the growth of the senior living industry include: (i) the aging of the U.S. population; (ii) consumer preference for greater independence in a residential setting as compared to institutional settings, such as skilled nursing facilities; and (iii) the decreasing ability of relatives to, or choice by relatives not to, provide care for the elderly in the home.

We incurred net losses of approximately $19.3 million and $1.8 million for the three months ended March 31, 2006 and 2005, respectively, and $51.0 million and $9.8 million for the years ended December 31, 2005 and 2004, respectively.

Recent Developments

ARC Merger

On May 12, 2006, we entered into an Agreement and Plan of Merger, or the ARC Merger Agreement, with Beta Merger Sub Corporation, a Delaware corporation and our wholly-owned subsidiary, or Merger Sub, and ARC, a Tennessee corporation. Pursuant to the ARC Merger Agreement, Merger Sub will be merged with and into ARC with ARC continuing as the surviving corporation and as our wholly-owned subsidiary. We refer to this transaction in this prospectus as the ‘‘ARC Merger’’. See ‘‘Business—ARC Merger’’ for a detailed discussion of this transaction.

Established in 1978, ARC is a leading national senior living and health care services provider offering a broad range of care and services to seniors, including independent living, assisted living,

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CCRC, skilled nursing, therapy services and Alzheimer's care. ARC, the seventh largest senior living company in the United States, currently operates 83 senior living communities in 19 states, with an aggregate unit capacity of approximately 16,100. ARC owns 33 communities (including 13 communities in joint ventures), leases 44 communities, and manages six communities pursuant to management agreements. Approximately 83% of ARC's revenues come from private pay sources. ARC generated net income (losses) of approximately $4.8 million and $2.6 million for the three months ended March 31, 2006 and 2005, respectively, and $69.7 million and $(11.3) million for the years ended December 31, 2005 and 2004, respectively.

We believe the ARC Merger creates a significant opportunity to grow incremental revenue and operating income through: (i) cost savings resulting from increased purchasing scale; (ii) operating efficiencies produced by the significant geographic synergies of Brookdale and ARC; and (iii) the expansion of ancillary services, such as rehabilitation, home health and institutional pharmacy services currently provided by ARC to residents of Brookdale facilities. In addition, 20 of the 83 communities operated by ARC, or approximately 42.2% of the total unit capacity of ARC as of the date of this prospectus, consist of CCRCs with an occupancy rate of 96%. We believe CCRCs are an attractive asset class because residents generally have a length of stay of 10 to 12 years compared to two to three years at assisted living or independent living facilities. This results in lower turnover, higher occupancy and more stable and consistent long-term cash flows.

Under the terms of the ARC Merger Agreement, upon consummation of the ARC Merger, each outstanding share of ARC common stock, together with the rights issued pursuant to the Rights Agreement, dated as of November 18, 1998, between ARC and American Stock Transfer and Trust Company, will be converted into the right to receive $33.00 per share in cash. In addition to the outstanding shares, all of the options to purchase ARC common stock, whether vested or unvested, will be cancelled and each holder of any such option will be entitled to receive a cash payment equal to the product of (i) the excess of $33.00 over the applicable option exercise price, and (ii) the number of shares of ARC common stock for which the options had not been previously exercised, for aggregate consideration of approximately $1.2 billion in cash. We intend to use a portion of the net proceeds received from the shares to be sold in this offering, together with the proceeds to be received through the issuance of 17,600,867 shares of our common stock that we expect to issue to the Investor (as defined below) pursuant to the Investment Agreement (as defined below), in connection with the consummation of the ARC Merger. For more information regarding the ARC

Merger, see ‘‘Business—ARC Merger’’.

In connection with the consummation of the ARC Merger, we expect to refinance certain ARC facilities, pursuant to which we expect to receive net cash proceeds of approximately $224.6 million.

As a condition to the ARC Merger, we entered into employment agreements, to take effect at the closing of the ARC Merger, with W.E. Sheriff, ARC's Chief Executive Officer, and the following other executive officers of ARC: Gregory B. Richard, George T. Hicks, Bryan D. Richardson, H. Todd Kaestner, and James T. Money, regarding their continued service with us following the consummation of the ARC Merger. Mr. Sheriff will become our co-Chief Executive Officer and these other individuals will become Executive Vice Presidents. The material terms of these agreements are described in ‘‘Management— Employment Contracts, Termination of Employment and Change-in-Control Arrangements—Current Employment Agreements’’.

Equity Commitment

Simultaneously with entering into the ARC Merger Agreement, in order to finance the ARC Merger, we entered into an Investment Agreement, or the Investment Agreement, with RIC Coinvestment Fund LP, or the Investor, a fund managed by an affiliate of Fortress. Under the terms of the Investment Agreement, the Investor has committed to purchase from us, at and simultaneously with the closing of the ARC Merger, up to $1.3 billion in aggregate of our common stock at a price of $36.93 per share.

Prior to the closing of the ARC Merger, we intend to exercise our right to reduce the Investor's $1.3 billion commitment by $650.0 million in connection with this offering. If we do not complete this or

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another equity offering prior to the closing of the ARC Merger, the Investor will issue to us, at the closing, a one-time option to purchase from the Investor a number of shares of our common stock having a value equal to the difference between the total consideration paid by the Investor for the common stock at the closing and $650.0 million. Pursuant to this option, we would have the right and the option (but not the obligation) to purchase those shares at a price per share of $38.07. The option would be immediately vested upon issuance at the closing and would expire six months and one day after the closing. If we complete this or another equity offering, we will not be entitled to this option and no option will be issued by the Investor. For a more detailed description of the Investment Agreement and the option, see ‘‘Business—Equity Commitment’’.

Recent Acquisitions

Since the completion of our initial public offering in November 2005, as of the date of this prospectus but not taking into account the ARC Merger, we have purchased or committed to purchase $788.6 million in senior housing assets, representing 107 facilities (which includes the acquisition of 12 facilities that we previously operated pursuant to long-term leases) with 9,495 units/beds. Upon the closing of all of these acquisitions, we would invest approximately $327.8 million of cash in these transactions (excluding borrowings). We have and will continue to use our existing cash and our corporate acquisition line to fund the equity component of these transactions. As of the date of this prospectus, we have closed on $689.0 million of transactions representing 93 facilities with 7,936 units/beds and we expect to close on the remainder of these transactions in the second or third quarter of 2006. We have invested $268.0 million of cash in these acquisitions (excluding borrowings) to date.

The table below is a summary, as of the date of this prospectus, of the 10 acquisitions other than the ARC Merger that we have closed since the completion of our initial public offering or that we expect to close in the second or third quarter of 2006. References to ''AL'' and ''IL'' in the table below refer to assisted living facilities and independent living facilities, respectively. We refer to these acquisitions in this prospectus as our ''Recent Acquisitions''. For more information, see ''Business—Acquisition History of Brookdale Senior Living Inc.''

Seller	Acquisition Closing Date	Number of Acquired Facilities	Number of Units/Beds	Purchase Price, Excluding Fees and Expenses ($ in millions)	Type(s) of Housing Facilities Acquired	Primary Facility Locations
AEW II Corporation(1)	Pending	2	193	$ 37.8	AL	NJ
Southland Suites	May 1, 2006	4	262	$ 24.0	AL	FL
AEW Capital Management(2)	April 28, 2006	6	1,017	$209.5	IL, AL, CCRC	CA, OH, WA
Southern Assisted Living Inc.	April 7, 2006	42	3,042	$ 82.9	AL	NC, SC, VA
American Senior Living L.P.(3)	March 31, 2006	18	2,239	$123.9	IL, AL, CCRC	FL, GA, TN
Wellington Group LLC	March 28, 2006	17	814	$ 79.5	AL	AL, FL, GA, MS, TN
Orlando Madison Ivy, LLC	February 28, 2006	2	114	$ 13.0	AL	FL
CMCP Properties Inc.(4)	December 30, 2005	6	1,394	$181.0	IL, AL	FL, GA, VA, OH, TX
Merrill Gardens	December 22, 2005	4	183	$ 16.5	AL	WA, CO, TX
Omega Healthcare Investors, Inc.(4)	November 30, 2005	6	237	$ 20.5	AL	OK, KS, IN, CO, TN
	TOTAL:	107	9,495	$788.6		

(1) On March 28, 2006, we entered into a definitive agreement with AEW II Corporation to acquire two facilities for an aggregate purchase price of $37.8 million. We expect this transaction to close in the third quarter of 2006.

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(2) On April 28, 2006, we acquired five facilities from AEW Capital Management for an aggregate purchase price of $179.5 million. We expect the remainder of this transaction, consisting of a skilled nursing component of one of the acquired facilities and one additional facility, to close in the third quarter of 2006.

(3)

On March 31, 2006, we completed the acquisition of seven senior living facilities from American Senior Living L.P. for an aggregate purchase price of $92.1 million. We expect the remainder of this transaction, consisting of an additional 11 leased facilities, to close in the third quarter of 2006.

(4)Prior to the acquisition of these facilities, we leased them pursuant to long-term leases.

Dividends

The table below is a summary of our dividend history.

Dividend Period	Pay Date	Dividend Per Share ($)	Total Dividend ($ in millions)	Amount of Dividend Accounted For As Return of Stockholders' Capital ($ in millions)
Three months ended September 30, 2005	October 7, 2005	$ 0.25	$ 14.4	$ 14.4
Three months ended December 31, 2005	January 16, 2006	$ 0.25	$ 16.5	$ 16.5
Three months ended March 31, 2006	April 14, 2006	$ 0.35	$ 23.2	$ 23.2

Industry Trends

The senior living industry has evolved to meet the growing demand for senior care generated by an aging population demanding new and better housing alternatives. We believe that we are well positioned to capitalize on a number of trends in the senior living industry, including:

- An increasing number of seniors with longer life expectancies and financial resources to support a private pay model. As a result of the expected increase in the number of seniors as a percentage of the total U.S. population over the next 25 years, we believe that the demand for service-based senior housing will increase and that seniors increasingly will have the ability to afford senior living services.
- Fragmentation in the industry provides significant acquisition and consolidation opportunities. The senior housing industry is highly fragmented and we believe that this fragmentation provides significant acquisition and consolidation opportunities.
- Majority of independent and assisted living revenue growth is generated from private pay sources.
- Favorable and improving supply and demand balance. We believe that increasing life expectancies and the declining amount of new senior living units under construction create a favorable and improving supply and demand balance.

Growth Strategy

Our objective is to increase our revenues, Adjusted EBITDA, Cash From Facility Operations and dividends per share of our common stock, while remaining one of the premier senior living providers in the United States. Key elements of our strategy to achieve these objectives include:

- Organic growth in our existing operations. We plan to grow our existing operations by:

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- increasing revenues through a combination of occupancy growth and resident fee increases as a result of growing demand for senior living facilities. For the 347 facilities we have owned, leased or managed since 2003 (excluding four development facilities), for the three months ended March 31, 2006 our facility operating income has increased approximately 9.3% on an annualized basis and, including the four development facilities, our facility operating income has increased approximately 10.2% on an annualized basis;
- taking advantage of our sophisticated operating and marketing expertise to retain existing residents and attract new residents to our facilities; and
- leveraging ARC's experience providing ancillary services to its residents and to other senior living communities it does not operate, such as rehabilitation, home health, institutional pharmacy and other wellness programs, to increase revenues as a combined company.

- Growth through operating efficiencies. Our geographic footprint and centralized infrastructure provide us with a significant cost advantage over local and regional operators of senior living facilities, which enables us to achieve economies of scale with respect to the goods and services we purchase. In connection with the combination of BLC and Alterra, we have undertaken several cost initiatives, which have resulted in and which we expect will continue to result in recurring operating and general and administrative expense savings. In addition, in connection with the ARC Merger we expect the geographic synergies of Brookdale and ARC to create greater economies of scale and a broader platform of services that will result in additional operating and general administrative expense savings.
- Growth through the acquisition and consolidation of asset portfolios and other senior living companies. We plan to continue to selectively purchase existing operating companies and facilities where we can improve service delivery, occupancy rates and cash flow. On a pro forma basis for the ARC Merger and the Recent Acquisitions, as of March 31, 2006, we are the largest operator of senior living facilities in the United States with over 530 senior living facilities in 33 states and the ability to serve over 50,000 residents.
- Expansion of existing facilities where economically advantageous.

Competitive Strengths

We believe our nationwide network of senior living facilities 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 current senior management team, together with the senior management team of ARC, which has agreed to join us upon consummation of the ARC Merger, has extensive experience in acquiring, operating and managing a broad range of senior living assets.
- Proven track record of successful acquisitions. Our experience in acquiring senior living facilities enables us to consider a wide range of acquisition targets, and we believe our expertise enables us to integrate new facilities into our operating platform with minimal disruption to our current operations.
- High-quality purpose-built facilities. On a pro forma basis for the ARC Merger and the Recent Acquisitions, as of March 31, 2006, we operate a nationwide base of over 530 purpose-built facilities in 33 states, including 85 facilities in nine of the top ten standard metropolitan statistical areas, or SMSAs. As of March 31, 2006 the average age of our facilities is 10.5 years.

• Ability to provide a broad spectrum of care. Given our diverse mix of independent and assisted living facilities and CCRCs, we believe we are one of the few companies in the senior living industry that is able to meet a wide range of our customers' needs.

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• The size of our business allows us to realize cost efficiencies. The size of our business allows us to realize cost savings in the purchasing of goods and services and also allows us to achieve increased efficiencies with respect to various corporate functions, most of which have yet to be realized in our operating results. In addition, our size and broad geographical footprint give us an advantage in executing our acquisition strategy.

Formation Transaction

We are a holding company formed in June 2005 for the purpose of combining, through a series of mergers, two leading senior living operating companies, BLC and Alterra, which had been operating independently since 1986 and 1981, respectively. Funds managed by affiliates of Fortress had been the majority owner of BLC since September 2000 and of Alterra since December 2003. On November 22, 2005, we completed our initial public offering of 12,732,800 shares of our common stock, including 8,560,800 primary shares, at $19.00 per share, for which we received proceeds, after fees and expenses, of approximately $144.8 million. As a result of the formation transactions completed in September 2005, prior to the consummation of our initial public offering, all of our outstanding common stock was held by funds managed by affiliates of Fortress, Health Partners, which is an affiliate of Capital Z Partners, Emeritus Corporation, or Emeritus, NW Select LLC, or NW Select, and members of our management. Each of Emeritus and NW Select sold all of the shares of our common stock it owned in our initial public offering. Neither Health Partners nor the funds managed by affiliates of Fortress sold any of the shares of our common stock that they owned in our initial public offering. See ''Business—History'' for a more detailed description of these formation transactions and ''Certain Relationships and Related Party Transactions'' for a more detailed description of our relationships with these stockholders. As of the date of this prospectus, funds managed by affiliates of Fortress own 43,407,000 shares, or over 65% of our common stock. Wesley R. Edens, the chairman of our board of directors, may be deemed to beneficially own over 65% of our outstanding capital stock prior to this offering by virtue of his ownership interests in Fortress. Assuming the issuance of 17,600,867 shares of our common stock that we expect to issue to the Investor pursuant to the Investment Agreement in connection with the consummation of the ARC Merger, funds managed by affiliates of Fortress will own 61,007,867 shares, or over% of our common stock following the consummation of the ARC Merger.

Since the completion of our initial public offering in November 2005, as of the date of this prospectus but not taking into account the ARC Merger, we have purchased or entered into definitive agreements to purchase $788.6 million in senior housing assets representing 107 facilities (which includes the acquisition of 12 facilities that we previously operated pursuant to long-term leases) with 9,495 units/beds. Upon consummation of the ARC Merger we will lease or acquire the ownership or management of an additional 83 facilities with approximately 16,100 units/beds.

Our Executive Offices

Our principal executive offices are located at 330 North Wabash Avenue, Suite 1400, Chicago, Illinois 60611. Our telephone number is 312-977-3700. Our internet address is www.brookdaleliving.com. Information on our website does not constitute part of this prospectus.

In addition, we maintain an executive office at 6737 W. Washington St., Suite 2300, Milwaukee, Wisconsin 53214.

Our telephone number at this office is 414-918-5000.

Following the consummation of the ARC Merger, we expect to maintain an executive office at 111 Westwood Place, Suite 200, Brentwood, Tennessee 37027. Our telephone number at this office will be 615-221-2250.

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THE OFFERING

Common stock offered by us in this offering	shares.
Common stock offered by selling stockholder in this offering(1)	shares. All shares of common stock being offered by the selling stockholder pursuant to this prospectus are being offered by Health Partners.
Common stock to be outstanding after this offering(2)	shares.
Use of proceeds	We expect to use a portion of the net proceeds from the sale of the shares of common stock we are offering together with the proceeds we expect to receive from the Investor pursuant to the Investment Agreement to consummate the ARC Merger. In addition, we expect to use a portion of the proceeds from this offering, together with the net proceeds we expect to receive from the refinancing of certain ARC facilities and the proceeds we expect to receive from the sale of an aggregate of 475,681 shares of our common stock to the ARC executives, to repay and terminate our New Credit Facility and for other general corporate purposes. See ''Use of Proceeds.'' We will not receive any proceeds from the sale of shares of common stock offered by the selling stockholder.
Dividend policy	On April 14, 2006, we paid a regular quarterly dividend of \$0.35 per share of our common stock, or an aggregate of \$23.2 million, for the three months ended March 31, 2006, to our holders of record as of March 31, 2006. We intend to continue to pay regular quarterly dividends to the holders of our common stock. The payment of dividends is subject to the discretion of our board of directors and will depend on many factors, including our results of operations, financial condition and capital requirements, earnings, general business conditions, restrictions imposed by financing arrangements, legal restrictions on the payment of dividends and other factors the board of directors deems relevant. We expect that in certain quarters we may pay dividends that exceed our net income amounts for such period as calculated in accordance with

	generally accepted accounting principles, or GAAP.
New York Stock Exchange symbol	''BKD''.
Risk Factors	Please read the section entitled ''Risk Factors'' beginning on page 16 for a discussion of some of the factors you should carefully consider before deciding to invest in shares of our common stock.

(1) Assumes that the underwriters will not exercise their overallotment option to purchase up to shares of our common stock from the selling stockholder.

(2) Assumes the issuance of 17,600,867 shares expected to be issued to the Investor pursuant to the Investment Agreement in connection with the consummation of the ARC Merger and assumes the sale and corresponding grant of an aggregate of 951,362 shares of our common stock to the ARC executives as described in ''Management—Equity Incentive Plans— Omnibus Stock Incentive Plan—New Plan Benefits''. Also assumes no sale and corresponding grant of our common stock to the ARC employee-optionees as described in ''Management—Equity Incentive Plans—Omnibus Stock Incentive Plan—Plan Amendment''.

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SUMMARY CONSOLIDATED AND COMBINED FINANCIAL INFORMATION

The following tables summarize the combined financial information for our business. You should read these tables along with ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' ''Business'' and our consolidated and combined financial statements and the related notes included elsewhere in this prospectus.

We derived the summary historical consolidated and combined statements of operations data for each of the three years in the period ended December 31, 2005 and the balance sheet data as of December 31, 2005, set forth below, from our audited consolidated and combined financial statements included elsewhere in this prospectus. The statements of operations data for the three months ended March 31, 2006 and 2005 and the balance sheet data as of March 31, 2006 are derived from our unaudited condensed combined interim financial statements included elsewhere in this prospectus. We completed our formation transactions on September 30, 2005. Results prior to that date represent the combined operations of BLC, Alterra, the Fortress CCRC Portfolio and the Prudential Portfolio (together, the ''Brookdale Facility Group''). See ''Business—Acquisition and History of Fortress CCRC Portfolio'' and ''Business—Acquisition and History of Alterra Healthcare Corporation'' for descriptions of the Fortress CCRC Portfolio and the Prudential Portfolio. For comparative purposes, the three months ended December 31, 2005, and nine months ended September 30, 2005, have been presented separately and aggregated in the year ended December 31, 2005 presentation.

The summary pro forma condensed consolidated statement of operations data for the year ended December 31, 2005 and the three months ended March 31, 2006 and the summary pro forma condensed consolidated balance sheet data as of March 31, 2006 are unaudited and have been derived from our historical consolidated and combined financial statements, adjusted to give effect to the events noted below, as if such events had occurred on January 1, 2005 for purposes of the unaudited pro forma condensed consolidated statement of operations data and as of March 31, 2006 for purposes of the unaudited pro forma condensed consolidated balance sheet data.

The summary pro forma condensed combined statement of operations data for the year ended December 31, 2005 and the three months ended March 31, 2006 and the condensed combined pro forma balance sheet data as of March 31, 2006 include the following adjustments:

Pro Forma Adjustment, including Public Offering:

- pro forma adjustment to give effect to the ARC Merger and debt refinancing as if this transaction closed January 1, 2005;
- our current offering of common stock and other use of proceeds;

Initial Public Offering:

- pro forma adjustment to give effect to the September 30, 2005 step-up in basis of non-controlling ownership (ownership interests not controlled or owned by affiliates of Fortress Investment Group LLC (''Minority Shareholders'')) due to the exchanges of minority ownership for Company ownership as if the transaction was completed on January 1, 2005;
- pro forma adjustment to give effect to compensation expense in connection with the grants under the restricted stock plan;
- incremental general and administrative expenses related to operating as a public company;
- our initial public offering, repayment of indebtedness and other use of proceeds;

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Significant Acquisitions:

- pro forma adjustments to give effect to the Fortress CCRC Portfolio, the Prudential Portfolio and the Chambrel Portfolio acquisitions on the pro forma condensed consolidated statements of operations as if these transactions closed on January 1, 2005;

Other Insignificant Acquisitions:

- pro forma adjustments to give effect to completed acquisitions (all completed and probable acquisitions are considered insignificant, individually and in the aggregate, under Securities and Exchange Commission Rules and Regulations, ''Rule 3-05''), of the Omega Portfolio, Merrill Gardens Portfolio, two facilities in Orlando, FL, Wellington Portfolio, Liberty Owned Portfolio, SALI Portfolio, AEW Portfolio, and Southland Portfolio, and probable acquisitions; AEW — New Jersey Portfolio and Liberty II Portfolio, as if these transactions closed on January 1, 2005;

Other Pro Forma Adjustments:

- pro forma adjustments to give effect to the refinancing of five facilities and termination of forward interest rate swaps of the five facilities as if these transactions closed on January 1, 2005;
- pro forma adjustment to give effect to the payment of the dividend declared for the three months ended March 31, 2006, Chambrel Portfolio financing and release of cash and investment-restricted as if these transactions closed January 1, 2005;
- pro forma adjustment to give effect to new and terminated management contracts as if these transactions closed January 1, 2005; and
- pro forma adjustment to give effect to the credit agreement and subsequent repayment as if this transaction closed January 1, 2005;
- pro forma adjustment to address the tax effect of all of the transactions described above.

See our pro forma condensed consolidated financial statements included elsewhere in this prospectus for a complete description of the adjustments made to derive the pro forma condensed combined statement of operations data and pro forma condensed consolidated balance sheet data.

	Pro Forma, as adjusted, Three Months Ended March 31, 2006	Pro Forma, as adjusted, Year Ended December 31, 2005	For the Three Months Ended March 31, 2006	2005	For the Period October 1, 2005 to December 31, 2005	For the Period January 1, 2005 to September 30, 2005	Year Ended Decemb 2005	2004
Statement of Operations Data (in thousands, except per share data):								
Resident fees	$408,900	$1,553,127	$221,036	$174,112	$211,860	$574,855	$786,715	$657,327
Management fees	1,547	4,950	1,147	871	1,187	2,675	3,862	3,545
Reimbursed expenses	2,083	3,089	—	—	—	—	—	—
Total Revenues	412,530	1,561,166	222,183	174,983	213,047	577,530	790,577	660,872
Facility operating expenses	261,235	1,003,086	136,945	110,349	127,105	366,782	493,887	415,169
Lease expense	64,757	257,439	45,734	46,502	48,487	140,852	189,339	99,997
Depreciation and amortization	70,398	289,694	22,299	5,173	18,784	30,034	48,818	50,187
General and administrative (including non-cash stock compensation expense)	35,106	145,077	21,085	11,658	27,690	54,006	81,696	43,640
Loss on disposal or sale of assets	84	709	—	—	—	—	—	—
Reimbursed expenses	2,083	3,089	—	—	—	—	—	—
Total expenses	433,663	1,699,094	226,063	173,682	222,066	591,674	813,740	608,993
Income (loss) from operations	$ (21,133)	$ (137,928)	$ (3,880)	$ 1,301	$ (9,019)	$ (14,144)	$ (23,163)	$ 51,879
Interest expense – debt and capitalized lease obligation	$ (31,003)	$ (125,856)	$ (13,690)	$ (9,125)	$ (12,809)	$ (33,439)	$ (46,248)	$ (63,634)
Net income (loss)	$ (34,883)	$ (160,667)	$ (19,326)	$ (1,798)	$ (24,456)	$ (26,530)	$ (50,986)	$ (9,794)
Earnings (loss) per share(1):								
Basic			$ (0.30)	—	$ (0.41)	—	—	—

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	Pro Forma, as adjusted, Three Months Ended March 31, 2006	Pro Forma, as adjusted, Year Ended December 31, 2005	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	For the Period October 1, 2005 to December 31, 2005	For the Period January 1, 2005 to September 30, 2005	Year Ende 2005	
Diluted			$ (0.30)	—	$ (0.41)	—	—	
Cash flows provided by (used in):								
Operating Activities	$ 25,766	$ 102,221	$ 12,119	$ (4,428)	$ 9.093	$ 7,807	$ 16,900	$
Investing Activities	(216,696)	2,204,070	(185,983)	$ (1,758)	(98,631)	(481,772)	(580,403)	5
Financing Activities	254,823	(2,241,688)	190,278	$ (4,589)	107,469	446,858	554,327	(5
Net increase (decrease) in cash and cash equivalents	$ 63,893	$ 64,603	$ 16,414	$(10,775)	$ 17,931	$ (27,107)	$ (9,176)	$
Other Data:								
Adjusted EBITDA(2)	$ 63,754	$ 230,566	$ 26,892	$ 10,272	$ 26,961	$ 39,649	$ 66,610	$ 1
Cash From Facility Operations(3)	$ 32,187	$ 79,150	$ 13,307	$ (1,585)	$ 10,872	$ (4,230)	$ 6,642	$
Facility Operating Income(4)	$ 142,943	$ 531,744	$ 84,008	$ 63,763	$ 84,740	$ 208,055	$ 292,795	$ 2
Number of facilities (at end of period)(5)	533	533	403	366	383	380	383	
Total units operated(5)	50,166	50,166	30,770	26,109	30,055	30,048	30,055	
Occupancy rate at end of period(6)	—	—	89.7%	89.0%	89.8%	88.9%	89.8%	
Average monthly revenue per unit (same store)	—	—	$ 3,116	$ 2,903	$ 3,062	$ 2,972	$ 2,969	$

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

(2) Adjusted EBITDA is a measure of operating performance that is not calculated in accordance with GAAP. Adjusted EBITDA should not be considered a substitute for net income, income from operations or cash flows provided by or used in operations, as determined in accordance with GAAP. Adjusted EBITDA is a key measure of the Company's operating performance used by management to focus on operating performance and management without mixing in items of income and expense that relate to long-term contracts and the financing and capitalization of the business. We define Adjusted EBITDA as net income (loss) before provision (benefit) for income taxes, non-operating income (loss) items, depreciation and amortization, straight-line lease expense (income), amortization of deferred entrance fees, and non-cash compensation expense and including entrance fee receipts and refunds.

We use Adjusted EBITDA to assess our overall operating performance on a periodic basis. We believe that Adjusted EBITDA, as we have defined it, is a better measure of periodic operating performance than the GAAP measures of performance because Adjusted EBITDA focuses on the day-to-day items of income and expense from operations. The GAAP measures of performance aggregate operating as well as financial items of income and expense and obscure the operational aspects of performance. Adjusted EBITDA provides us with a measure of operating performance exclusive of items that (1) are beyond the control of management in the short-term, and (2) relate to the financing and capitalization of the Company, such as depreciation and amortization, straight-line rent expense (income), taxation and interest expense. This metric measures our performance based on operational factors that management can impact in the short-term, namely the income and 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 operating performance of the business on a period-to-period basis. Adjusted EBITDA is also used by research analysts and investors to evaluate the performance and value of companies in our industry. An investor or potential investor should find this item important in evaluating our performance, results of operations and financial position. We use non-GAAP financial measures as a supplement to our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business. However, Adjusted EBITDA has limitations as an analytical tool. 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. In addition, because Adjusted EBITDA is not a measure of financial performance under GAAP and is susceptible to varying calculations, Adjusted EBITDA as presented in this prospectus may differ from and may not be comparable to similarly titled measures used by other companies.

The calculation of Adjusted EBITDA includes non-recurring costs totaling $3.0 million and $3.4 million, $9.1 million, and $12.5 million for the three months ended March 31, 2006 and December 31, 2005, the nine months ended September 30, 2005, and the year ended December 31, 2005, on both a historical and pro forma basis.

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The table below shows the reconciliation of net income (loss) to Adjusted EBITDA for the three months ended March 31, 2006 and 2005 and December 31, 2005, the nine months ended September 30, 2005, and the years ended December 31, 2005, 2004 and 2003:

	Pro Forma, as adjusted								
	Three Months Ended March 31, 2006	Year Ended December 31, 2005	Three Months Ended March 31, 2006	2005(1)	Three Months Ended December 31, 2005(1)	Nine Months Ended September 30, 2005	Years Ended Decembe 2005(1)	2004	
Net loss	$(34,883)	$(160,677)	$(19,326)	$ (1,798)	$(24,456)	$(26,530)	$(50,986)	$ (9,794)	$
Cumulative effect of a change in accounting principle, net	—	—	—	—	—	—	—	—	
Loss on discontinued operations	—	—	—	35	—	128	128	361	
Provision (benefit) for income taxes	(21,890)	(98,624)	386	166	150	(247)	(97)	11,111	

Other	280	110	—	—	—	—	—	114	
Minority interest	646	(13,030)	116	(2,532)	—	(16,575)	(16,575)	(11,734)	
Equity in (earnings) loss of unconsolidated ventures	168	838	168	187	197	641	838	931	
Loss (gain) extinguishment of debt	3,828	7,168	1,334	453	3,543	453	3,996	(1,051)	
Loss on sale of properties	—	—	—	—	—	—	—	—	
Interest expense:									
Debt	22,440	90,761	11,530	6,849	10,485	26,564	37,049	55,851	
Amortization of deferred financing costs	2,292	8,495	703	423	238	827	1,065	2,120	
Capitalized lease obligation	8,563	35,095	2,160	2,276	2,324	6,875	9,199	7,783	
Change in fair value of Derivatives	101	88	101	(4,062)	88	(4,080)	(3,992)	(3,176)	
Interest Income	(2,678)	(8,152)	(1,052)	(696)	(1,588)	(2,200)	(3,788)	(637)	
Income (loss) From Operations	(21,133)	(137,928)	(3,880)	1,301	(9,019)	(14,144)	(23,163)	51,879	
Depreciation and amortization	70,398	289,694	22,299	5,173	18,784	30,034	48,818	50,187	
Straight-line lease expense	6,537	29,275	5,259	6,094	5,895	17,857	23,752	4,588	
Amortization of deferred gain	(1,087)	(5,026)	(1,087)	(2,296)	(1,152)	(6,786)	(7,938)	(2,260)	
Amortization of entrance fees	(4,722)	(18,297)	(83)	—	(15)	(18)	(33)	—	
Non-cash compensation expense	5,080	39,160	3,018	—	11,534	11,146	22,680	—	
Entrance fee receipts	13,754	57,528	2,069	—	1,999	3,230	5,229	—	
Entrance fee disbursements	(5,073)	(23,840)	(703)	—	(1,065)	(1,670)	(2,735)	—	
Adjusted EBITDA	$ 63,754	$ 230,566	$ 26,892	$10,272	$ 26,961	$ 39,649	$ 66,610	$104,394	$

(1)Brookdale Senior Living Inc. completed its formation transactions on September 30, 2005. Results prior to that date represent the combined operations of the Brookdale Facility Group. The three months ended December 31, 2005, and nine months ended September 30, 2005, have been aggregated in the year ended December 31, 2005 presentation.

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(3)Cash From Facility Operations is a measurement of liquidity that is not calculated in accordance with GAAP, and should not be considered a substitute for cash flows provided by or used in operations, as determined in accordance with GAAP. We define Cash From Facility Operations as cash flows provided by (used in) operations adjusted for changes in operating assets and liabilities, long-term deferred interest and fees added to principal, refundable entrance fees received, entrance fees disbursed, other and recurring capital expenditures. Recurring capital expenditures include expenditures capitalized in accordance with GAAP that are funded from Cash From Facility Operations. Amounts excluded from recurring capital expenditures consist primarily of unusual or non-recurring capital items and facility purchases and/or major renovations that are funded using financing proceeds and/or proceeds from the sale of facilities that are held for sale.

We believe Cash From Facility Operations is a better measure of liquidity that 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 facilities. Our New Credit Facility contains a concept similar to Cash From Facility Operations as part of a formula to calculate availability of borrowing under the credit facility. This metric measures our liquidity based on operational factors that management can impact in the short-term. In addition, Cash From Facility Operations is one of the metrics used by senior management and the board of directors to review our ability to service our outstanding indebtedness, including our credit facilities, our ability to pay dividends to stockholders, our ability to make regular recurring capital expenditures to maintain and improve our facilities on a periodic basis for planning purposes, and the preparation of our annual budget. We use non-GAAP financial measures as a supplement to our GAAP financial measures in order to provide a more complete understanding of the factors and trends affecting our liquidity. However, Cash From Facility Operations has limitations as an analytical tool. Cash From Facility Operations is not an alternative to cash flows provided by or used in operations as calculated and presented in accordance with GAAP. Cash From Facility Operations

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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. In addition, because Cash From Facility Operations is not a measure of liquidity under GAAP and is susceptible to varying calculations, Cash From Facility Operations, as presented in this prospectus, may differ from and may not be comparable to similarly titled measures used by other companies.

The calculation of Cash From Facility Operations includes non-recurring costs totaling $3.0 million and $3.4 million, $9.1 million, and $12.5 million for the three months ended March 31, 2006 and December 31, 2005, the nine months ended September 30, 2005, and the year ended December 31, 2005 on both an historical and pro forma basis.

The table below shows the reconciliation of net cash provided by operating activities to Cash From Facility Operations for the three months ended March 31, 2006 and 2005 and December 31, 2005, the nine months ended September 30, 2005, and the years ended December 31, 2005, 2004 and 2003:

	Pro Forma, as adjusted								
	Three Months Ended March 31,	Twelve Months Ended December 31,	Three Months Ended March 31,		Three Months Ended December 31,	Nine Months Ended September 30,	Years Ended December 31,		
	2006	2005	2006	2005(1)	2005(1)	2005	2005(1)	2004	2003
Net cash provided by operating activities	$25,766	$102,221	$12,119	(4,428)	$ 9,093	$ 7,807	$ 16,900	$ 50,128	$34,111

Changes in operating assets and liabilities	10,219	15,543	831	6,271	6,199	(257)	5,942	(7,465)	(1,095)
Long-term deferred interest and fee added to principal	—	—	—	—	—	—	—	(1,380)	(798)
Refundable entrance fees received	4,517	18,938	1,621	—	1,513	2,530	4,043	—	—
Reimbursement of operating expenses	1,500	—	1,500	—	—	—	—	—	—
Entrance fees disbursed	(5,073)	(23,840)	(703)	—	(1,065)	(1,670)	(2,735)	—	—
Other	—	—	—	—	—	—	—	114	—
Recurring capital expenditures	(4,742)	(33,712)	(2,061)	(3,428)	(4,868)	(12,640)	(17,508)	(13,527)	(4,434)
Cash From Facility Operations	$32,187	$ 79,150	$13,307	$(1,585)	$10,872	$ (4,230)	$ 6,642	$ 27,870	$27,784

(1) Brookdale Senior Living Inc. completed its formation transactions on September 30, 2005. Results prior to that date represent the combined operations of the Brookdale Facility Group. The three months ended December 31, 2005, and nine months ended September 30, 2005, have been aggregated in the year ended December 31, 2005 presentation.

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(4) Facility Operating Income is not a measurement of operating performance calculated in accordance with GAAP and should not be considered a substitute for net income, income from operations, or cash flows provided by or used in operations, as determined in accordance with GAAP. We define Facility Operating Income as net income (loss) before provision (benefit) for income taxes, non-operating income (loss) items, depreciation and amortization, facility lease expense, general and administrative expense, compensation expense, amortization of deferred entrance fee revenue and management fees.

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. 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 depreciation and amortization, lease expense, 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. Facility Operating Income is one of the metrics used by senior management and the board of directors to review the financial performance of the facilities on a period to period basis. Facility Operating Income is also used by research analysts and investors to evaluate the performance of and value companies in our industry. In addition, Facility Operating Income is a common measure used in the industry by investors, lenders and lessors to value the acquisition or sales price of facilities and is used as a measure of the returns expected to be generated by a facility.

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%-5% of operating revenue) and an annual capital reserve (generally $250-$450 per unit/bed). As of March 31, 2006, we are in compliance with the financial covenants of all of our debt and lease agreements. 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. We use non-GAAP financial measures as a supplement to our GAAP

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results in order to provide a more complete understanding of the factors and trends affecting our business and our facilities. However, Facility Operating Income has limitations as an analytical tool. 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. In addition, because Facility Operating Income is not a measure of financial performance under GAAP and is susceptible to varying calculations, Facility Operating Income, as presented in this prospectus, may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net income (loss) to Facility Operating Income for the three months ended March 31, 2006 and 2005 and December 31, 2005, the nine months ended September 30, 2005, and the years ended December 31, 2005, 2004 and 2003:

	Pro Forma, as adjusted								
	Three Months Ended March 31	Twelve Months Ended December 31,	Three Months Ended March 31,		Three Months Ended December 31,	Nine Months Ended September 30,	Years Ended December 31,		
	2006	2005	2006	2005	2005[(1)]	2005	2005[(1)]	2004	2003
Net loss	$(34,883)	$(160,677)	$(19,326)	$ (1,798)	$(24,456)	$ (26,530)	$ (50,986)	$ (9,794)	$ (8,963
Cumulative effect of a change in accounting principle, net	—	—	—	—	—	—	—	—	7,277
Loss on discontinued operations	—	—	—	35	—	128	128	361	322
Provision (benefit) for income taxes	(21,890)	(98,624)	386	166	150	(247)	(97)	11,111	139
Other	280	110	—	—	—	—	—	114	
Minority interest	646	(13,030)	116	(2,532)	—	(16,575)	(16,575)	(11,734)	(1,284
Equity in (earning) loss of unconsolidated ventures	168	838	168	187	197	641	838	931	(318
Loss (gain) on extinguishment of debt	3,828	7,168	1,334	453	3,543	453	3,996	(1,051)	(12,511
Loss on sale of properties	—	—	—	—	—	—	—	—	24,513
Interest expense:									
Debt	22,440	90,761	11,530	6,849	10,485	26,564	37,049	55,851	24,484
Amortization of	2,292	8,495	703	423	238	827	1,065	2,120	1,097

deferred financing costs									
Capitalized lease obligation	8,563	35,095	2,160	2,276	2,324	6,875	9,199	7,783	622
Change in fair value of derivatives	101	88	101	(4,062)	88	(4,080)	(3,992)	(3,176)	
Interest income	(2,678)	(8,152)	(1,052)	(696)	(1,588)	(2,200)	(3,788)	(637)	(14,037
Income (loss) from operations	(21,133)	(137,928)	(3,880)	1,301	(9,019)	(14,144)	(23,163)	51,879	21,341
Depreciation and amortization	70,398	289,694	22,299	5,173	18,784	30,034	48,818	50,187	21,383
Facility lease expense	64,757	257,439	45,734	46,502	48,487	140,852	189,339	99,997	30,744
General and administrative (including non-cash stock compensation expense)	35,106	145,077	21,085	11,658	27,690	54,006	81,696	43,640	15,997
Amortization of entrance fees	(4,722)	(18,297)	(83)	—	(15)	(18)	(33)	—	
Loss on disposal or sale of assets	84	709	—	—	—	—	—	—	
Management fees	(1,547)	(4,950)	(1,147)	(871)	(1,187)	(2,675)	(3,862)	(3,545)	(5,368