

DISCLOSURE STATEMENT

Dated: May 23, 2019

Name of Facility: **Brookdale Carriage Club Providence**

located at 5800 Old Providence Road
Charlotte, NC 28226 (704) 365-8551

In accordance with Chapter 58, Article 64 of the North Carolina General Statutes of the State of North Carolina:

- **this Disclosure Statement may be delivered until revised, but not after October 28, 2019;**
- **delivery of the Disclosure Statement to a contracting party before execution of a contract for continuing care is required;**
- **this Disclosure Statement has not been reviewed or approved by any government agency or representative to ensure accuracy or completeness of the information set out.**

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DISCLOSURE STATEMENT
BROOKDALE CARRIAGE CLUB PROVIDENCE

I. ORGANIZATION INTRODUCTION AND INFORMATION

Brookdale Carriage Club Providence is operated by ARCLP-Charlotte, LLC, (the “Company”) a Tennessee limited liability company. Until April 2007, a majority of the property and equipment used by the Company was owned by Countryside ALF, LLC (“CALF”), a New York limited liability company, registered to do business in North Carolina. CALF leased the community property and equipment to the Company, a Tennessee limited liability company, registered to do business in North Carolina. The Company is 99% owned by American Retirement Corporation (“ARC”), a Tennessee corporation and 1% owned by ARC Charlotte, Inc., a Tennessee corporation, which is owned 100% by ARC. ARC is the managing member of the Company and is a wholly owned subsidiary of Brookdale Senior Living, Inc. (“Brookdale”). Brookdale is publicly traded on the New York Stock Exchange under the symbol “BKD”. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease. All of the aforementioned entities are for profit.

Countryside ALF, LLC
760 Brooks Avenue
Rochester, NY 14619
Attn: Mr. Joe Kuby

ARCLP-Charlotte, LLC
d/b/a Brookdale Carriage Club Providence
5800 Old Providence Road
Charlotte, NC 28226
Attn.: Mr. Gregory Cunningham - Executive Director

American Retirement Corporation and Brookdale Senior Living Inc.
111 Westwood Place - Suite 400
Brentwood, TN 37027
Attn: Mr. Bryan Richardson – CAO/EVP

II. FACILITY INTRODUCTION AND INFORMATION

A. Narrative description of the facility and its operation.

The Company is an owner and operator of a senior living community (the “Community”) located on a 45-acre site at 5800 Old Providence Road in Charlotte, North Carolina and consisting of ten apartment buildings (one, two and three story) and seven four-plex villas with two large lakes in the center of the Community. The Company is committed to providing senior living solutions and an exceptional living experience through a property that is designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Community offers a variety of living arrangements and services to accommodate all levels of physical ability and health. The Community has 275 independent living units, 56 assisted living units, 34 memory care units, and 42 skilled nursing beds on one campus. The Community also

has common spaces including a lobby, dining room, auditorium, game rooms, craft room, country store/snack bar, beauty/barber shop, clinic and offices.

As a continuing care retirement community (“CCRC”) licensed by the North Carolina Department of Insurance, the Company offers a 13 month Residence Agreement, renewable for successive periods of 13 months. The Community began operation in July 1988, and ARC has managed the Community since its opening. ARC assumed ownership and responsibility for the operation in May 1996. In December 2001, the Company sold the majority of the Community property and equipment to CALF and contemporaneously entered into a long-term operating lease with a 15-year term. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease.

B. Non-profit/For Profit Status.

ARCLP-Charlotte, LLC, d/b/a Brookdale Carriage Club Providence, is a for-profit limited liability corporation, and is not affiliated with any religious, charitable, or other non-profit organization.

C. Legal description.

See Section I above for ownership description.

D. Identification and background of management staff and management company.

ARCLP-Charlotte, LLC has employed Gregory Cunningham as the Executive Director of Brookdale Carriage Club Providence.

Gregory Cunningham became the Executive Director of Brookdale Carriage Club Providence in August of 2018. Previously, Greg had been the Regional Vice President of the Mid-South Division for ACTS Retirement. Greg spent the prior 12 years with Brookdale Senior Living serving in both Executive Director and Regional Operations positions.

Greg is licensed in North Carolina as an Assisted Living Administrator. Directors of Brookdale Senior Living Inc.

(Address: 111 Westwood Place, Suite 400, Brentwood, TN 37027)

Lee S. Wielansky has more than 40 years of commercial real estate investment, management and development experience. Mr. Wielansky currently serves as Chairman and CEO of Opportunistic Equities, which specializes in low income housing. He has also served as Chairman and CEO of Midland Development Group, Inc., which he re-started in 2003 and focused on the development of retail properties in the mid-west and southeast. Prior to Midland, he served as President and CEO of JDN Development Company, Inc. and as a director of JDN Realty Corporation. Before joining JDN, he served as Managing Director – Investments of Regency Centers Corporation, which in 1998 acquired Midland Development Group, a retail properties development company co-founded by Mr. Wielansky in 1983. Mr. Wielansky joined the Board in April 2015 and became Non-Executive Chairman in February 2018. He is an independent director. He also serves as Lead Trustee of Acadia Realty Trust and served as a director of Isle of Capri Casinos, Inc. from 2007 to 2017 and Pulaski Financial Corp. from 2005 to 2016. Mr. Wielansky received a bachelor's degree in Business Administration, with a major in Real Estate and Finance, from the University of Missouri –

Columbia, where he is currently a member of the Strategic Development Board of the College of Business. He also serves on the Board of Directors of The Foundation for Barnes-Jewish Hospital. Mr. Wielansky's real estate investment, management and development experience, as well as his service as a director of several public companies, led to the conclusion that he should serve as a member of the Board.

Lucinda M. Baier has served as Brookdale's President and Chief Executive Officer and as a member of the Board since February 2018, after having served as Brookdale's Chief Financial Officer since December 2015. Cindy is a proven, change-oriented executive who has demonstrated her abilities across multiple industries and leadership roles. In addition to experience as a seasoned CFO in several companies, she has had multi-billion dollar P&L responsibility; served as an executive officer of a Fortune 30 company; been the CEO for a publicly-traded retailer and has served for more than a decade as a Board member of multi-billion public and private companies, including serving as the Chairman of the Board. Cindy's experience includes serving as the Senior Vice President and General Manager of Sears, Roebuck and Co.'s Credit and Financial Products business, serving as the Chairman of Sears National Bank, and serving on the Board of Directors for The Bon-Ton Stores and KKBS Group Holdings, LLC. She has served as the Chief Financial Officer of the following companies: Navigant Consulting, Inc., Central Parking System, Movie Gallery, Inc., and World Kitchen, LLC. Cindy previously served on the Board of Trustees of The Field Museum and on the Board of Directors for the National Association of Corporate Directors, Chicago Chapter. Cindy is a Certified Public Accountant and is a graduate of Illinois State University, with Bachelor and Master of Science degrees in Accounting. Ms. Baier's appointment as the Company's President and Chief Executive Officer and her more than fifteen years of executive leadership experience across multiple functions, including as the Company's Chief Financial Officer, led to the conclusion that she should serve as a member of the Board.

Marcus E. Bromley joined Brookdale's Board in July 2017 as an independent director and brings more than 35 years of real estate industry leadership experience. He served as chairman of the board and chief executive officer of Gables Residential Trust from 1993 until 2000, and then as a member of its board until the company was acquired in 2005. Prior to joining Gables Residential Trust, Mr. Bromley was a division partner for the Southeast operation of Trammell Crow Residential Company. Mr. Bromley has served as a member of the board of Cole Credit Property Trust V, Inc., a non-listed real estate investment trust, since March 2015 and as its non-executive chairman since June 2015. Mr. Bromley also currently serves as a member of the advisory board of Nancy Creek Capital Management, LLC, a private mezzanine debt and equity investment firm. Previously, Mr. Bromley served as a member of the boards of Cole Corporate Income Trust, Inc. from January 2011 until January 2015, of Cole Credit Property Trust II, Inc. from 2005 until July 2013, and of Cole Credit Property Trust III, Inc. from 2008 until 2012, each of which was a non-listed real estate investment trust. Mr. Bromley holds a B.S. in Economics from Washington & Lee University and an M.B.A. from the University of North Carolina. Mr. Bromley's significant executive, leadership and advisory experience in the real estate industry led to the conclusion that he should serve as a member of the Board.

Frank M. Bumstead has over 40 years' experience in the field of business and investment management and financial and investment advisory services. He also has represented buyers and sellers in a number of merger and acquisition transactions, including the sale of CMT

(now a nationwide cable network) from its previous owners to Gaylord Entertainment, Inc. Mr. Bumstead is a principal shareholder of Flood, Bumstead, McCready & McCarthy, Inc., a business management firm that represents artists, songwriters and producers in the music industry as well as athletes and other high net worth clients. He has been with the firm since 1989. From 1993 to December 1998, Mr. Bumstead served as the Chairman and Chief Executive Officer of FBMS Financial, Inc., an investment advisor registered under the Investment Company Act of 1940. Mr. Bumstead joined the Board in August 2006 and is an independent director. Prior to our acquisition of American Retirement Corporation (ARC), Mr. Bumstead served as the Lead Director of ARC, where he had served as a member of the board of directors for 11 years. He served in 2015 as Chairman of the board of directors of the Country Music Association and is also Vice Chairman of the board of directors and Chairman of the Finance and Investment Committee of the Memorial Foundation, Inc., a charitable foundation. He also currently serves on the board of directors of Nashville Wire Products, Inc. Mr. Bumstead has also served as a director and as a member of the Audit Committee of Syntroleum Corporation. He also has previously served on the boards of the Dede Wallace Center, The American Red Cross, ECA, Inc., American Constructors, Inc., American Fine Wire, Inc., Junior Achievement of Nashville, and Watkins Institute. In addition, he previously served as a member of the board of advisors of United Supermarkets of Texas, LLC and was Chairman of its Finance and Audit Committee. Mr. Bumstead received a B.B.A. degree from Southern Methodist University and a Masters of Business Management from Vanderbilt University's Owen School of Management. Mr. Bumstead's experience in business management and as a director of several public companies, along with his knowledge of the senior housing industry (through his prior service as a director of ARC), led to the conclusion that he should serve as a member of the Board.

The Honorable Jackie M. Clegg brings robust transactional and financial experience, along with expertise in corporate governance and public policy, through her work as a strategic consultant, in government service and as a director of a number of public companies. Ms. Clegg joined the Board in November 2005 as an independent director. Ms. Clegg founded the strategic consulting firm Clegg International Consultants, LLC, and has served as its Managing Partner since 2001. Ms. Clegg was nominated by the President of the United States and confirmed by the U.S. Senate to serve as the Vice Chair of the Board of Directors and First Vice President of the Export-Import Bank of the United States, the official export credit institution of the United States of America, serving from June 1997 through July 2001, and served as Chief Operating Officer from January 1999 to September 2000. In her role with the Export-Import Bank, Ms. Clegg had direct supervisory responsibilities for the financial operations of the Export-Import Bank and was responsible for financing more than \$50 billion in U.S. exports and a portfolio of \$65 billion, budgeting decisions for the Export-Import Bank's operational and program budgets and opening Export-Import Bank programs in several countries. Ms. Clegg also served as chair of the Loan and Audit Committees of the Board of Directors and as chair of the Budget Task Force and the Technology and Pricing Committees of the Export-Import Bank. Ms. Clegg had previously served as the Chief of Staff and Special Assistant to the Chairman of the Export-Import Bank from April 1993 through June 1997. Prior to her Export-Import Bank service, Ms. Clegg worked in the U.S. Senate, focusing on international finance and monetary policy, national security and foreign affairs. She was the principal staff member on the U.S. Senate Committee on Banking, Housing and Urban Affairs Subcommittee on International Finance & Monetary Policy. She was

responsible for developing strategy and for drafting legislation, including changes to the Export Administration Act, the Credit Reform Act, the Defense Production Act and Fair Trade in Financial Services legislation, among others. She also served as an associate staff member for the Senate Appropriations Committee for approximately ten years. Ms. Clegg also draws on her significant experience in service on the boards of directors of public companies and private organizations. She currently serves on the board of directors and chairs the Audit Committee of the Public Welfare Foundation. She has previously served as a director of IPC Holdings, Ltd., a company that provided property casualty catastrophe insurance coverage, and Blockbuster, Inc., which had over 6,500 retail locations. Additionally, she served as a director of CME Group Inc. (the parent company of the Chicago Mercantile Exchange), the Chicago Board of Trade, Cardiome Pharma Corp. and Javelin Pharmaceuticals, Inc. She previously chaired the Nominating and Corporate Governance Committees of Blockbuster, Inc., IPC Holdings, Ltd. and Cardiome Pharma Corp. and the Audit Committees of the IPC Holdings, Ltd., Chicago Board of Trade, Cardiome Pharma Corp. and Javelin Pharmaceuticals, Inc. She has also chaired and served on numerous special committees overseeing mergers, acquisitions, and financing transactions and has helped companies through the IPO process. Based on her current and former positions and directorships, Ms. Clegg has gained significant financial, corporate governance, public policy, infrastructure, and real estate experience. Ms. Clegg's extensive transactional and financial experience, as well as her experience in the public sector and as a director of numerous public companies (including her service as chairman of the foregoing standing and special committees) led to the conclusion that she should serve as a member of the Board.

Rita Johnson-Mills is an experienced healthcare executive, with more than 20 years of experience in the broader healthcare industry, including experience in the public sector. She most recently served from August 2014 to December 2017 as President and Chief Executive Officer of UnitedHealthcare Community Plan of Tennessee, a health plan serving more than 500,000 government sponsored healthcare consumers with over \$2.5 billion of annual revenue, after having previously served as Senior Vice President, Performance Excellence and Accountability for UnitedHealthcare Community & State since 2006. Ms. Johnson-Mills also previously served as the Director of Medicaid Managed Care for the Centers for Medicare and Medicaid Services and as Chief Executive Officer of Managed Health Services Indiana and Buckeye Health Plan, wholly owned subsidiaries of Centene Corporation. Ms. Johnson-Mills earned a B.S. degree from Lincoln University and an M.A. degree in Labor and Human Resource Management and M.P.A. degree in Public Policy and Management from The Ohio State University.

James R. Seward has extensive experience in senior management and oversight in the investment sector, including significant experience in mergers and acquisitions and capital markets transactions. Mr. Seward is a Chartered Financial Analyst and, since 2000, has been a private investor. Previously, Mr. Seward was Executive Vice President, Chief Financial Officer, and director of Seafield Capital Corporation, a publicly-traded investment holding company. In that capacity, Mr. Seward also served as a director and as a member of the executive committee and as Audit Committee Chairman of LabOne, a provider of health screening and risk assessment services to life insurance companies and clinical diagnostic testing services to healthcare providers, until LabOne was sold to Quest Diagnostics in 2005. Mr. Seward also previously served as Chief Executive Officer and President of SLH

Corporation, a spin-off of Seafield Capital Corporation. Mr. Seward joined the Board in November 2008 and is an independent director. He also currently serves as Chairman of the Board of Trustees and as a member of the Audit Committee and Valuation, Portfolio and Performance Committee of RBC Funds, a registered investment company. He previously served as a director of ARC and has also served as a member of the board of directors and Audit Committee of Syntroleum Corporation. Mr. Seward received a Bachelor of Arts degree from Baker University, a Master's in Public Administration, City Management from the University of Kansas and a Master's in Business Administration, Finance from the University of Kansas. Mr. Seward's experience and credentials in investing and finance, along with his knowledge of both the senior housing industry (through his prior service as a director of ARC) and the health care industry (through his prior service as a director of LabOne), led to the conclusion that he should serve as a member of the Board.

Denise W. Warren brings more than 30 years of operational, financial and healthcare experience. Since October 2015, she has served as Executive Vice President and Chief Operating Officer of WakeMed Health & Hospitals, where she is responsible for the strategic, financial and operational performance of the organization's network of facilities throughout the North Carolina Research Triangle area. Prior to that, from 2005 to September 2015, Ms. Warren served as Chief Financial Officer of Capella Healthcare, Inc., an owner and operator of general acute-care hospitals, as well as its Executive Vice President since January 2014, and as its Senior Vice President prior to that. Before joining Capella, she served as Senior Vice President and Chief Financial Officer of Gaylord Entertainment Company from 2000 to 2001, as Senior Equity Analyst and Research Director for Avondale Partners LLC and as Senior Equity Analyst for Merrill Lynch & Co. She also currently serves on the Board of Directors of Computer Programs and Systems, Inc. Ms. Warren earned a B.S. degree in Economics from Southern Methodist University and a M.B.A. from Harvard University.

Gregory Cunningham - Executive Director – Brookdale Carriage Club Providence

There is not any professional service firm, association, trust, partnership or corporation, in which the Executive Director, management staff or any member of the Board of Directors has a 10 percent or greater interest in and which it is presently intended shall currently or in the future provide goods, leases or services to the Community or to residents of the Community, of an aggregate value of \$500 or more within any year. Further, there is not any professional service firm, association, trust, partnership, or corporation that currently provides any goods, leases or services of an aggregate value of \$500 or more within any year to the Community or to the residents of the Community that has a 10% or greater interest in any officer, director or management staff (including the Executive Director).

F. Criminal violation statement.

No officer or director has been involved in criminal or civil proceedings involving fraud, embezzlement, fraudulent conversion or misappropriation of property; none is subject to a currently effective injunction or restrictive court order or within the past five years had any State or federal license or permit suspended or revoked as a result of matters arising out of the business of retirement living or health care.

G. Location and description of physical property.

See Section II.A. Above

H. Estimated number of residents.

At full occupancy, in its present configuration and assuming 20% of the independent living apartments are occupied by two persons, Brookdale Carriage Club Providence would expect to have approximately 462 residents in its 275 independent living units, 56 assisted living units, 34 memory care units, and 42 skilled nursing beds

As of April 30, 2019, there were 288 independent living residents, 57 assisted living residents, 26 memory enhanced residents, and 24 residents living in the skilled nursing beds.

III. POLICIES

A. Admission

(i) Health, financial and insurance requirements for admission.

Brookdale Carriage Club Providence requires that persons accepted for residence at Brookdale Carriage Club Providence be able to live independently or demonstrate that alternative arrangements have been made by the prospective resident to assure that needed assistance will be provided by and for the Resident. Financial resources sufficient to pay the monthly rent are required together with some assurance based on the financial report of the Resident that he or she will be able to continue such payment for the term of the Residency Agreement. If health or financial circumstances change between the time of signing the Residency Agreement and entry into the community, Brookdale Carriage Club Providence reserves the right, subject to all applicable laws, to decline admission to the Resident. There are no insurance requirements.

(ii) Age requirements for admission.

Residents shall be sixty-two (62) years of age or older at the time of occupancy.

B. Rescission privileges.

Residents may rescind their Residency Agreement within thirty (30) days following the later of the execution of their Residency Agreement or the receipt of a disclosure statement that meets the requirements of N.C.G.S. §58-64-20. Residents are not required to move into Brookdale Carriage Club Providence before the expiration of the thirty (30) day rescission period.

If a resident dies before occupying a living unit at Brookdale Carriage Club Providence, or if, on account of illness, injury, or incapacity, is precluded from occupying a living unit at Brookdale Carriage Club Providence under the terms of his or her Residency Agreement, the Residency Agreement is automatically canceled.

For rescinded or canceled Residency Agreements under the two paragraphs immediately above, the resident or resident's legal representative shall receive a refund of all money or property transferred to Brookdale Carriage Club Providence, less (i) periodic charges specified in the Residency Agreement and applicable only to the period of time a living unit was actually occupied by the resident; (ii) those nonstandard costs specifically incurred by Brookdale Carriage Club Providence at the request of the resident and described in the Residency Agreement or any amendment to the Residency Agreement

signed by the resident; and (iii) non-refundable fees, if set out in the contract. Such refund will take place within thirty (30) days of receipt of written notification.

C. Termination provisions.

Since there is no entrance fee at Brookdale Carriage Club Providence, there is no provision for the refund of an entrance fee upon termination of the Residency Agreement. The membership fee is not refundable unless the Residency Agreement is terminated prior to or during the first three months of occupancy. If termination occurs, the membership fee will be prorated equally over the first three months of occupancy. The contract for continuing care (Residency Agreement) may be terminated under the following circumstances:

(i) By the Resident:

Before the Resident begins occupancy of the living unit.

Upon the death of a Resident, the Agreement will terminate thirty (30) days following the Resident's death, or when all of Resident's furnishings and personal effects are removed and the living unit's keys are returned to Brookdale Carriage Club Providence, whichever occurs later.

The Agreement will terminate sixty (60) days following Brookdale Carriage Club Providence's receipt of notice from Resident's physician that Resident requires medical, personal, or other nursing services for which Brookdale Carriage Club Providence is not licensed, or does not provide, or until personal effects are removed, whichever is later.

The Resident may terminate the Residency Agreement at the end of any thirteen (13) month period by giving forty-five (45) days advance written notice prior to the expiration of the current term.

Following the completion of six (6) months of residency in a living unit, Resident may terminate the Residency Agreement at any time by giving Brookdale Carriage Club Providence sixty (60) days' prior written notice of termination. If such notice is given, Resident will pay the monthly rent and any other charges as provided for in the Residency Agreement, until the expiration of such sixty (60) day period, or until all of Resident's furnishings and personal effects are removed and the Living Unit's keys are returned to Brookdale Carriage Club Providence, whichever is later.

(ii) By Brookdale Carriage Club Providence:

If the Resident is in default in the payment of the monthly rent, Brookdale Carriage Club Providence may, upon ten (10) days notice to Resident, terminate the Residency Agreement and avail itself of the remedies provided under North Carolina law.

If the Resident shall violate any of the terms, covenants or conditions of the Residency Agreement, or the Resident Manual.

If the Resident requires services by Brookdale Carriage Club Providence for which it is not licensed or does not provide, Brookdale Carriage Club Providence shall have the right to terminate the Agreement by giving Resident thirty (30) days written notice.

Brookdale Carriage Club Providence may terminate the Residency Agreement at the end of any thirteen (13) month period by giving thirty (30) days advance written notice prior to the expiration of the current term.

D. Other Changes:

(i) Changing Units.

If the Resident wishes to move from one apartment to another, and the desired new apartment is available, the Resident will be allowed to move to the new apartment at the prevailing market rate for the new unit. Resident will be responsible for all moving costs and a transfer fee of \$1,000.00.

(ii) Marriages/New second occupant.

If a Resident marries while a resident of Brookdale Carriage Club Providence, the new spouse, upon approval of Brookdale Carriage Club Providence, will be added to the Residency Agreement and the monthly fee will be increased by the amount of the then-prevailing second person fee. The new spouse will not be charged a membership fee or moving fee. If the new spouse is not accepted for residence at Brookdale Carriage Club Providence, the Resident may cancel the Residency Agreement, effective at the end of the current month. If two (2) existing Residents marry each other or choose to cohabitate they may choose in which Resident's apartment to live. The Monthly Service Fee will stop immediately once the apartment not chosen is fully vacated and a second person fee will be added to the Residency Agreement of the Resident whose apartment was chosen.

(iii) Inability to pay.

Residents who face financial difficulties and are unable to pay their monthly fee will be required to leave Brookdale Carriage Club Providence after ten (10) days' notice.

E. Making unit available to another resident.

A living unit occupied by a Resident will not be made available to a different or new resident as long as Resident has entered into a valid Residency Agreement, is not in default of the lease or in violation of any Brookdale Carriage Club Providence policy, and is paying the monthly rent on the unit on a timely basis. In the event notice of termination is given by Brookdale Carriage Club Providence or the Resident, Resident agrees that, with twenty-four (24) hours' notice, Brookdale Carriage Club Providence may show the apartment to a potential new resident.

F. Pet Policy

Resident agrees not to keep dogs, cats or other pets on the premises of Brookdale Carriage Club Providence or allow any such pets to visit Brookdale Carriage Club Providence without the prior written approval of Brookdale Carriage Club Providence management. If approved, a Two Hundred Fifty Dollar (\$250.00) non-refundable pet deposit shall be paid to Brookdale Carriage Club Providence by the Resident prior to the pet being kept by Resident. Brookdale Carriage Club Providence shall have the right to require Resident to remove any pet from the premises if, within the sole discretion of Brookdale Carriage Club Providence, the pet is deemed a nuisance.

IV. SERVICES

A. Services provided under the Carriage Club Independent Residency Agreement include:

- i. The right to occupy the Living Unit described in the Residency Agreement.
- ii. Meals. Every month each Resident is provided with 23 to 26 meal tickets (five less than the number of days in the month), each entitling the Resident to a meal in the Dining Room at lunch or dinner. Free continental breakfast is provided in the Club House.
- iii. Limited housekeeping services once a week.
- iv. Maintenance services. Brookdale Carriage Club Providence is responsible for normal wear and tear, maintenance and replacement of the property, furnishings and equipment owned by or leased to Brookdale Carriage Club Providence for use at Brookdale Carriage Club Providence. The Resident is responsible for any damage to such property, furnishings and equipment, including the cost of repair or replacement of the diminution in value thereof, intentionally or negligently caused by the Resident or his or her guest.
- v. Health Services (See below).
- vi. Planned social and recreational services including crafts.
- vii. Scheduled transportation for shopping trips, medical appointments and other activities and needs.
- viii. Utilities. Brookdale Carriage Club Providence furnishes heating, air-conditioning, light, water, sewer, electricity, and trash removal from designated areas. Residents are responsible for their own telephone and cable television service.
- ix. Grounds keeping. Brookdale Carriage Club Providence furnishes basic grounds keeping services, including lawn, tree and shrubbery care. Residents may elect to plant and maintain certain areas determined by the management; however, Residents will be responsible for planting and maintaining such personal gardening areas.
- xi. 24 hour staffed reception and security. Electronically monitored emergency call system.

B. Services provided under the Carriage Club Assisted Living Residency Agreement include:

- i. The right to occupy the Living Unit described in the Residency Agreement.
- ii. Meals. Every Resident is provided with 3 meals a day.
- iii. Limited housekeeping services once a week.
- iv. Maintenance services. Brookdale Carriage Club Providence is responsible for normal wear and tear, maintenance and replacement of the property, furnishings and equipment owned by or leased to Brookdale Carriage Club Providence for use at Brookdale Carriage Club Providence. The Resident is responsible for any damage to such property, furnishings and equipment, including the cost of repair or replacement

of the diminution in value thereof, intentionally or negligently caused by the Resident or his or her guest.

- v. Health Services (See below).
- vi. Planned social and recreational services including crafts.
- vii. Scheduled transportation for shopping trips, medical appointments and other activities and needs.
- viii. Utilities. Brookdale Carriage Club Providence furnishes heating, air-conditioning, light, water, sewer, electricity, and trash removal from designated areas. Residents are responsible for their own telephone and cable television service.
- ix. Grounds keeping. Brookdale Carriage Club Providence furnishes basic grounds keeping services, including lawn, tree and shrubbery care. Residents may elect to plant and maintain certain areas determined by the management; however, Residents will be responsible for planting and maintaining such personal gardening areas.
- x. Medication administered by appropriately trained personnel. Assistance with bathing, dressing, and meals as needed. Availability of special diets as prescribed by a licensed physician.
- xi. Full use of amenities in the Assisted Living facility.

C. Additional Services Available at Additional Cost:

Additional meals may be purchased on a single meal basis or using meal plans which may be offered from time to time. Lunch and dinner are available in the Dining Room each day. Free continental breakfast is provided in the Club House. Guests may be brought to meals at the established guest meal prices.

The beauty/barber shop is operated by an independent contractor and services may be charged to the Resident's Brookdale Carriage Club Providence account.

Independent Living - Monthly Service Fees are as follows:

(Second Person Charge \$875)

Magnolia - Efficiency/Studio	\$2,745-\$3,345
Gardenia - 1 Bdrm/1 Bath	\$3,345-\$4,345
Cherry Blossom - 1 Bdrm/1 1/2 Bath	\$3,545-\$4,345
Dogwood - 2 Bdrm/2 Bath	\$4,245-\$4,545
Jasmine - 2 Bdrm/2 Bath Deluxe	\$4,200-\$4,845
Villas - 2 Bdrm/2 Bath	\$5,295-\$5,545
Assisted Living*	\$6,345-\$7,695
Memory Care	\$7,445-\$8,095

(*Second Person Charge \$1,495)

Healthcare Semi-Private Room	\$275.00/day
Healthcare Private Room	\$339.00/day

Additional Service Charges are as follows:

Dining Room Prices per Meal (all meal prices include tax)

Lunch	Meal Ticket	Guest
	\$5.35	\$6.95
Dinner	Meal Ticket	Guest
	\$5.35	\$9.95
Brunch	Meal Ticket	Guest
	\$5.35	\$12.95
Lunch Residents/Guest Tickets - 20 Tickets @ \$125.00		
Dinner Guest Tickets - 10 Tickets @ \$90.00		

Guest Units

One Night	\$109.00
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Transportation

Airport Charge	\$30.00
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Maintenance

Extra Towel Bar	\$10.00
Grab Bar	\$35.00
Closet Shelving	\$2.00/foot
Wireless Doorbell	\$40.00
Digital Thermostat	\$65.00
Additional Labor (one tech)	\$15.00/hour
Extra Keys	\$2.00
Extra Phone or Cable Jack	\$50.00
Light Dimmer	\$10.00
Outdoor Carpet	\$75.00
Door Stop	\$ 5.00
Programming TV's, VCR's, Answering Machines, etc.	\$ 7.50/hour (1hour minimum)

Housekeeping

Laundering of Bedspreads	\$ 10.50 - \$ 16.50
Laundering of Blankets	\$ 7.50 - \$ 14.50
Bathroom Rug Cleaning	\$ 2.50
Door Mat Cleaning	\$ 2.50

Nursing	
Kleenex	\$ 1.00
Beauty Shop	
Shampoo and Set	\$18.00 & up
Cut	\$13.00 & up
Manicure	\$15.00 & up
Perm	\$65.00 & up
Administration	
Copies	\$.10/copy
Fax	\$1.00/page (incoming & outgoing)
Apartment Transfer Fee	
Move Fee	\$1,000.00

D. Health Services Available

Brookdale Carriage Club Providence may make available to, or may make arrangements for, Residents to receive health care services, including physical therapy, rehabilitative treatments and equipment, ambulance services, limited pharmacy services, laboratory tests, and other health care related services as may be determined by Brookdale Carriage Club Providence. Charges for these health care services are in addition to the monthly rental fee in the apartments, the Coach House or healthcare center. Brookdale Carriage Club Providence offers skilled nursing care, therefore, it can be provided at an extra charge to those who have lived at Brookdale Carriage Club Providence for at least thirty (30) days, and who require such care, to the extent space is available.

E. Personal Services Available.

The Coach House assisted living unit is available to Residents and others requiring personal care. It is licensed by the North Carolina Department of Health and Human Services as a Home for the Aged. Care in this unit requires an additional monthly charge at the prevailing rate depending on the unit size.

V. FEES CHARGED

A. Application, registration or entrance fees.

There are no application, registration or entrance fees (other than a \$5,050 nonrefundable membership fee for independent residents and a \$4,050 nonrefundable fee for assisted living residents). At the termination of the Residence Agreement, any prepaid expenses will be refunded to the Resident less amounts owed to Brookdale Carriage Club Providence at that time, and less the costs of making any repairs to the apartment beyond normal wear and tear.

The Membership Fee is a one (1) time fee which entitles residents priority access to all services and products of Brookdale Senior Living nationwide. Independent Living residents, upon completion of one year of residency, will earn fifteen (15) benefit days per year up to a maximum of 60 days. The benefit days may be used up to fifteen (15) days per year for a temporary or permanent stay at no additional charge for room and board in Assisted Living, Memory Care and/or semi-private accommodations in the Healthcare

Center. All Residents will receive priority access to our multiple levels of care and specialized services which include but are not limited to: Personalized Living, Therapy and Rehabilitative treatments.

B. Monthly Service Fees for each type of unit are: The Monthly Service Fee entitles the resident to the services listed on pages 12-15.

Name	Type	Range of fees *
The Magnolia	Efficiency/Studio	\$2,745-\$3,345
The Gardenia	One Bedroom, One Bath	\$3,345-\$4,345
The Cherry Blossom	One Bedroom, One Bath Deluxe	\$3,545-\$4,345
The Dogwood	Two Bedroom, Two Bath	\$4,245-\$4,545
The Jasmine	Two Bedroom, Two Bath Deluxe	\$4,200-\$4,845
The Villas	Two Bedroom, Two Bath	\$5,295-\$5,545
Assisted Living		\$6,345-\$7,695
Memory Care		\$7,445-\$8,095

**The amount of the fee depends on the location. Monthly Service Fees paid after the 10th day of the month shall include an additional late charge of 4%.*

C. Fee changes.

Periodic charges are adjusted in accordance with the terms of the Residence Agreement, which provides for the Resident to be given notice of any monthly rental fee increase sixty (60) days before the automatic renewal of the Residence Agreement. The increases are based on the best judgment of the provider based on increasing costs of operation and market factors. Over the past twenty plus years of the operation of Brookdale Carriage Club Providence, overall percentage fee increases and average monthly fee increases in dollars have been as follows:

<u>Year</u>	Independent Living <u>% Increase</u>	Independent Living Dollar <u>Increase</u>	Assisted Living <u>% Increase</u>	Assisted Living Dollar <u>Increase</u>
1988	0%	\$0	0%	\$0
1989	0%	\$0	0%	\$0
1990	4.75%	\$73	5.41%	\$100
1991	0.00%	\$0	5.13%	\$100
1992	4.00%	\$55	4.86%	\$100
1993	3.20%	\$45	2.33%	\$50
1994	3.5% to 6.5%	\$60 to \$100	4.50%	\$100
1995	3.5% to 6.0%	\$40 to \$135	4.35%	\$100
1996	3.5% to 6.0%	\$50 to \$145	4.12%	\$100
1997	3.25%	\$65	3.00%	\$80
1998	3.75%	\$78	3.25%	\$100
1999	4.00%	\$90	3.75%	\$100
2000	5.00%	\$100	3.00%	\$90

2001	4.50%	\$120	0.00%	\$0
2002	4.75%	\$150	3.00%	\$100
2003	3.75%	\$130	4.00%	\$125
2004	4.00%	\$100	4.50%	\$151
2005	4.00%	\$100	4.00%	\$125
2006	5.00%	\$133	4.50%	\$169
2007	5.50%	\$152	5.50%	\$210
2008	5.50%	\$164	5.50%	\$226
2009	4.00%	\$124	4.00%	\$179
2010	4.00%	\$124	3.50%	\$162
2011	2.50%	\$95	4.00%	\$185
2012	3.00%	\$109	3.00%	\$177
2013	3.50%	\$117	3.50%	\$179
2014	4.00%	\$119	4.50%	\$184
2015	5.00%	\$125	5.00%	\$193
2016	5.50%	\$216	5.50%	\$312
2017	5.50%	\$229	5.50%	\$353
2018	5.00%	\$208	5.00%	\$339

D. Late Charges

Monthly Service Fees paid after the tenth (10th) day of the month shall include an additional late charge of 4%.

VI. FINANCIAL INFORMATION

A. Reserves, escrows and trusts

In accordance with N.C.G.S. §58-64-33, ARCLP-Charlotte, LLC maintains an operating reserve. Funds serving as the operating reserve are deposited with The Private Bank. George Hicks, Executive Vice President – Finance will be making decisions on the account. Mr. George Hicks has been with Brookdale for thirty plus years.

The forecasted financial statements indicate that total expenses less depreciation and amortization for 2019 will be \$20,517,785. Based on this level of forecasted operating expenses and the 25% reserve requirement for occupancy shortfall, the operating reserve requirement for 2019 is \$5,129,500. As of April 30, 2019, the Operating Reserve balance is \$4,522,745. As such, additional funding is required.

B. 2018 Actual vs. Financial Forecast

BROOKDALE CARRIAGE CLUB PROVIDENCE
Actual Vs Forecasted Income Statement
For the year ending December 31, 2018

	2018	2018	Variance
	<u>Actual</u>	<u>Disclosure</u>	<u>o Disclosure</u>
REVENUES			
IL Income	\$ 12,111,949	\$ 12,452,000	\$ (340,051) A
IL Double Occ Income	481,644	400,000	81,644
AL Income	4,043,023	3,894,000	149,023
ME Income	2,689,964	2,850,000	(160,036)
NC Income	2,657,960	2,822,000	(164,040)
Other Incomes	2,785,501	1,652,000	1,133,501 B
Home Health	-	-	-
Total Operating Revenue	\$ 24,770,041	\$ 24,070,000	\$ 700,041
EXPENSES			
Ancillary Expenses	\$ 1,648,641	\$ 1,317,000	\$ 331,641 C
Home Health	-	-	-
Administration & General	2,022,124	2,522,000	(499,876) D
NC Department	1,415,853	1,323,000	92,853
ME Department	723,535	665,000	58,535
AL Department	686,149	648,000	38,149
Plant Operations/Maintena	1,226,076	1,097,000	129,076
Utility	685,537	696,000	(10,463)
Housekeeping & Laundry	439,890	460,000	(20,110)
Resident Services	825,463	539,000	286,463 E
Food Service	2,327,076	2,372,000	(44,924)
Marketing	576,785	559,000	17,785
General Insurance	279,959	202,000	77,959
Worker's Compensation	62,571	151,000	(88,429)
Depreciation & Amortization	3,898,674	3,386,000	512,674 F
Interest Expense	4,256,939	4,282,000	(25,061)
Property Tax	491,055	495,000	(3,945)
Property management	-	-	-
Total Operating Expenses:	\$ 21,566,327	\$ 20,714,000	\$ 852,327
Non-Operating Expenses	\$ 216,666	\$ -	\$ 216,666
Net Income	\$ 2,987,048	\$ 3,356,000	\$ (368,952)

Notes on Income Statement Variances:

Threshold: Variances greater than \$240,000 (1% of revenues).

A - The unfavorable variance in Independent Living Income is due to a slightly lower rate than forecasted in the prior year.

B - The favorable variance in Other Incomes is primarily driven by growth in Companion Services, higher than forecasted Therapy revenues, and higher Community Fee collection than forecasted which all increased revenue. Also see tickmark E.

C - The unfavorable variance in Ancillary Expenses is primarily driven by incremental costs incurred for the increased Companion Services and Therapy revenues discussed in tickmark B.

D - The favorable variance in Administration and General expense is mainly due to lower than planned Bad Debt and Workers Compensation expense.

E - The unfavorable variance in Resident Services expense is mainly due to a change from the prior period forecast to allocate actual Beauty Shop expenses to this line instead of the Ancillary Expense line.

F - The unfavorable variance in Depreciation and Amortization was due to capital expenditures that were placed into service earlier than expected.

BROOKDALE CARRIAGE CLUB PROVIDENCE
Actual Vs Forecasted Balance Sheet
For the year ending December 31, 2018

	<u>Actuals</u>	<u>Projected</u>	<u>Variance</u>
Cash - restricted	492,581	581,000	(88,419)
Cash - unrestricted	-	-	-
Accounts receivable, net	474,880	474,000	880
Other current assets	249,881	331,000	(81,119)
Total current assets	<u>1,217,343</u>	<u>1,386,000</u>	<u>(168,657)</u>
Land	10,890,000	10,890,000	-
Buildings and improvements	87,298,300	86,514,000	784,300
Furniture and equipment	11,492,817	11,466,000	26,817
Construction in Progress	179,684	3,271,000	(3,091,316)
Gross property, plant and equipment	109,860,801	112,141,000	(2,280,199) A
Accumulated depreciation	(36,680,336)	(36,148,000)	(532,336) B
Property, plant and equipment, net	<u>73,180,465</u>	<u>75,993,000</u>	<u>(2,812,535)</u>
Long term restricted cash	4,491,999	4,744,000	(252,001) C
Other Assets	-	-	-
Assets	<u>78,889,807</u>	<u>82,123,000</u>	<u>(3,233,193)</u>
Current portion of long-term debt	1,706,324	1,689,000	17,324
Accounts payable	362,446	1,640,000	(1,277,554) D
Accrued expenses	1,205,622	1,427,000	(221,378) E
Tenant deposits	150,393	151,000	(608)
Total current liabilities	<u>3,424,784</u>	<u>4,907,000</u>	<u>(1,482,216)</u>
Long-term debt	93,247,216	91,498,000	1,749,216 F
Liabilities	<u>96,672,000</u>	<u>96,405,000</u>	<u>267,000</u>
Equity	<u>(17,782,193)</u>	<u>(14,282,000)</u>	<u>(3,500,193) G</u>
Liabilities and Equity	<u>78,889,807</u>	<u>82,123,000</u>	<u>(3,233,193)</u>

Notes on Balance Sheet Variances:

Threshold: Variances greater than \$197,000 (0.25% of total assets).

A – The decrease in Property, plant and equipment over the prior year forecast is largely due to timing of projects that were not completed during 2018 as forecasted.

B – The increase in Accumulated depreciation was due to capital expenditures that were placed into service earlier than expected

C - The decrease in Long term restricted cash compared to forecast is due to lower funding during 2018 than projected.

D – The decrease in Accounts payable is due to timing of when payments were made during year end compared to the forecasted amount which was based on December 31, 2017 balance.

E - The change in Accrued expenses is due to timing of payments at year-end compared to forecasted amounts that were based on December 31, 2017 balance.

F - The Company removed one community from the Community's loan portfolio during 2018 which resulted in a reallocation of additional mortgage debt to the Community.

G - Cash distributed to members, net was higher than the prior year forecast primarily due to distribution of the proceeds from the reallocation of long-term debt during 2018.

BROOKDALE CARRIAGE CLUB PROVIDENCE
Statement of Cash Flows - PY Forecast to Actual
For the year ending December 31, 2018

	<u>Actuals</u>	<u>Projected</u>	<u>Variance</u>	
Net income	2,987,048	3,356,000	(368,952)	A
Adjustments to reconcile net income to operating cash:				
Depreciation	3,841,130	3,309,000	532,130	B
Amortization - financing costs	57,544	77,000	(19,456)	
Change in operating assets				
Escrow Deposit	-	-	-	
Accounts receivable	(9,748)	(9,000)	(748)	
Other assets	79,098	(2,000)	81,098	
Accounts payable	(1,266,814)	10,000	(1,276,814)	C
Accrued expenses	(166,031)	55,000	(221,031)	D
Tenant deposits and other restricted liabilities	1,150	2,000	(850)	
Property tax payable	-	-	-	
Net cash provided by operating activities	<u>5,523,376</u>	<u>6,798,000</u>	<u>(1,274,624)</u>	
Cash flows from investing activities				
(Deposit to) withdrawals from operating reserve fund	(313,015)	(563,000)	249,985	E
Purchase of property and equipment	(839,595)	(3,120,000)	2,280,405	F
Net cash used in investing activities	<u>(1,152,611)</u>	<u>(3,683,000)</u>	<u>2,530,391</u>	
Cash flows from financing activities				
Payment of financing costs	-	-	-	
Proceeds from debt	1,917,828	-	1,917,828	G
Payment of long-term debt	(1,778,362)	(1,647,000)	(131,362)	
Member distributions, net	(4,630,953)	(1,500,000)	(3,130,953)	H
Net cash used in financing activities	<u>(4,491,487)</u>	<u>(3,147,000)</u>	<u>(1,344,487)</u>	
Increase (decrease) in cash	(120,721)	(32,000)	(88,721)	
Cash, beginning of year	<u>613,302</u>	<u>613,302</u>	-	
Cash, ending of year	<u>492,581</u>	<u>581,302</u>	<u>(88,721)</u>	

Notes on Statement of Cash Flows Variances:

Threshold: Variances greater than \$197,000 (0.25% of total assets).

A – Net Income was lower than forecasted primarily due to higher depreciation than projected.

B – Depreciation expense was higher than forecasted was due to capital expenditures that were placed into service earlier than expected.

C – The decrease in the accounts payable is due to timing of when payments were made during year end compared to the forecasted amount which was based on December 31, 2017 balance.

D – The change in accrued expenses is due to timing of payments at year-end compared to forecasted amounts that were based on December 31, 2017 balance.

E – The change in deposits to the operating reserve fund is due to lower funding than projected.

F – The decrease in capital expenditures over prior year forecast is due to timing of projects that were not competed during 2018 as forecasted.

G – The Company removed one community from the Community's loan portfolio during 2018 which resulted in a reallocation of additional mortgage debt to the Community.

H – Cash distributed to members, net was higher than the prior year forecast primarily due to distribution of the proceeds from reallocation of debt during 2018.

C. Facility Assumptions

In the financial forecast, an average occupancy rate of 90.6% (249.2 units) for independent living is assumed throughout the forecast period for the 275 independent living units.

In the financial forecast, an average occupancy rate of 92.6% (52.1 units) for assisted living is assumed throughout the forecast period for the 56 assisted living units.

In the financial forecast, an average occupancy rate of 86.4% (29.4 units) for memory care is assumed throughout the forecast period for the 34 memory care units.

In the financial forecast, an average occupancy rate of 62.2% (26.1 units) for skilled nursing is assumed throughout the forecast period for the 42 skilled nursing beds.

ATTACHMENTS

Attachment 1 – Five Year Forecasted Financial Statements compiled by Lattimore Black Morgan & Cain, P.C., Certified Public Accountants and Business Advisors.

Attachment 2 – Independent Living Residency Agreement

Attachment 3 – Assisted Living Residency Agreement

Attachment 4 – Audited Financial Statements (10K Report)

Attachment 5 – Interim Financial Statements

Attachment 6 – Unaudited Financial Statements

ARCLP - CHARLOTTE, LLC
d/b/a BROOKDALE CARRIAGE
CLUB PROVIDENCE

Compilation of Financial Forecasts

Five Years Ending
December 31, 2023



**ARCLP – CHARLOTTE, LLC d/b/a
BROOKDALE CARRIAGE CLUB PROVIDENCE**

Five Years Ending December 31, 2023

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ACCOUNTANTS' COMPILATION REPORT

The Board of Directors ARCLP – Charlotte, LLC:

Management is responsible for the accompanying forecasts of ARCLP – Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company”), which comprises the forecasted balance sheets, statements of income and changes in members’ deficit, and cash flows as of and for each of the five years ending December 31, 2019 through 2023, and the related summaries of significant assumptions and accounting policies in accordance with guidelines for the presentation of forecasts established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecasts nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these forecasts. The accompanying forecasts were prepared for use by the Company for inclusion in its annual disclosure statement for the North Carolina Department of Insurance. All other information that may be included with the forecasts identified in the preceding paragraph has not been subjected to an examination, review, compilation, or preparation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

The forecasted results may not be achieved, as there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecasts and this report are intended solely for the information and use of the Company and the North Carolina Department of Insurance and are not intended to be and should not be used by anyone other than these specified parties.

LBMC, PC

Brentwood, Tennessee
May 30, 2019

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Balance Sheets
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Assets					
Current assets:					
Cash, restricted	\$ 146	1,002	1,068	1,075	1,063
Accounts receivable	484	494	504	515	526
Other current assets	252	254	256	258	261
Total current assets	882	1,750	1,828	1,848	1,850
Property and equipment:					
Land and improvements	10,890	10,890	10,890	10,890	10,890
Building and improvements	90,539	90,878	91,231	91,599	91,981
Furniture and equipment	13,238	13,421	13,611	13,808	14,014
Construction in progress	180	180	180	180	180
Total property and equipment	114,847	115,369	115,912	116,477	117,065
Less accumulated depreciation and amortization	(40,268)	(43,882)	(47,523)	(51,194)	(54,895)
Net property and equipment	74,579	71,487	68,389	65,283	62,170
Operating reserve fund	5,130	5,186	5,256	5,345	5,442
Total Assets	\$ 80,591	78,423	75,473	72,476	69,462
Liabilities and Members' Deficit					
Current liabilities:					
Current portion of long-term debt	\$ 1,759	1,811	1,859	1,909	26,912
Accounts payable	373	384	395	407	419
Accrued expenses	794	856	920	986	1,052
Tenant deposits and other restricted liabilities	152	160	168	176	185
Other current liability	473	473	473	473	473
Total current liabilities	3,551	3,684	3,815	3,951	29,041
Long-term debt	91,530	89,777	87,975	86,123	59,269
Deferred revenue - refundable	-	-	-	-	-
Deferred revenue - non-refundable	-	-	-	-	-
Total liabilities	95,081	93,461	91,790	90,074	88,310
Members' deficit, unrestricted	(14,490)	(15,038)	(16,317)	(17,598)	(18,848)
Members' deficit, restricted	-	-	-	-	-
Total Liabilities and Members' Deficit	\$ 80,591	78,423	75,473	72,476	69,462

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Statements of Income and Changes in Members' Deficit
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Revenues:					
Independent living	\$ 12,773	13,039	13,524	13,986	14,460
Assisted living	4,346	4,421	4,641	4,849	5,067
Memory enhancement	2,646	2,705	2,884	3,091	3,277
Nursing care	3,158	3,168	3,242	3,328	3,415
Second party rents	389	411	427	443	460
Other income	2,420	2,364	2,463	2,573	2,690
Total revenues	25,732	26,108	27,181	28,270	29,369
Expenses:					
Ancillary expenses	1,682	1,730	1,782	1,840	1,900
General and administration	2,796	2,850	2,914	2,980	3,049
Nursing	1,355	1,381	1,416	1,456	1,497
Memory enhancement	739	753	773	796	820
Assisted living	646	658	675	695	715
Plant operations and maintenance	1,226	1,250	1,279	1,311	1,342
Utilities	749	773	790	805	820
Housekeeping and laundry	460	469	481	495	509
Resident services	596	607	622	639	656
Food service	2,450	2,490	2,554	2,626	2,694
Marketing	662	674	691	708	726
General insurance	260	267	273	278	284
Workers' compensation	149	153	156	159	163
Property taxes	571	588	600	612	624
Depreciation and amortization	3,645	3,672	3,699	3,728	3,759
Interest expense	4,454	4,341	4,205	4,123	4,061
Total expenses	22,440	22,656	22,910	23,251	23,619
Net income	\$ 3,292	3,452	4,271	5,019	5,750
Members' Deficit:					
Beginning of year	\$ (17,782)	(14,490)	(15,038)	(16,317)	(17,598)
Net income	3,292	3,452	4,271	5,019	5,750
Distributions to members	-	(4,000)	(5,550)	(6,300)	(7,000)
End of year	\$ (14,490)	(15,038)	(16,317)	(17,598)	(18,848)

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Statements of Cash Flows
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Cash flows from operating activities:					
Net income	\$ 3,292	3,452	4,271	5,019	5,750
Adjustments to reconcile net income to net cash provided					
by operating activities:					
Depreciation and amortization	3,587	3,614	3,642	3,671	3,701
Loan fee amortization	57	58	57	58	57
Changes in:					
Accounts receivable	(9)	(10)	(10)	(11)	(11)
Other current assets	(2)	(2)	(2)	(2)	(2)
Accounts payable	11	11	11	12	12
Accrued expenses	61	62	64	65	67
Tenant deposits and other restricted liabilities	2	8	8	9	9
Total adjustments	3,707	3,741	3,770	3,802	3,833
Net cash provided by operating activities	6,999	7,193	8,041	8,821	9,583
Cash flows from investing activities:					
Deposits to operating reserve fund	(637)	(56)	(70)	(90)	(97)
Purchases of property and equipment	(4,986)	(522)	(544)	(565)	(588)
Net cash used in investing activities	(5,623)	(578)	(614)	(655)	(685)
Cash flows from financing activities:					
Payment of long term debt	(1,722)	(1,759)	(1,811)	(1,859)	(1,910)
Distributions to members	-	(4,000)	(5,550)	(6,300)	(7,000)
Net cash used in financing activities	(1,722)	(5,759)	(7,361)	(8,159)	(8,910)
Annual cash flow	(346)	856	66	7	(12)
Beginning balance of cash	492	146	1,002	1,068	1,075
Ending balance of cash	\$ 146	1,002	1,068	1,075	1,063

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

The financial forecasts present to the best of the knowledge and belief of management (“Management”) of ARCLP – Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company”), the Company’s expected financial position, results of operations and cash flows as of and for each of the five years ending December 31, 2019 through 2023 based on the assumptions described herein.

The forecasts reflect Management’s judgment as of May 30, 2019, the date of these forecasts, of the expected conditions and its expected course of action assuming that the assumptions included herein occur.

This report was prepared for use by the Company for inclusion in its annual disclosure statement for the North Carolina Department of Insurance. Accordingly, this report should not be used for any other purpose. The assumptions disclosed herein are those that Management believes are significant to the forecasts. Even if the assumptions stated above occur, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Background Information

Until April 2007, a majority of the property and equipment used by the Company was owned by Countryside ALF, LLC (“CALF”), a New York limited liability company, registered to do business in North Carolina. CALF leased the community property and equipment to the Company, a Tennessee limited liability company, registered to do business in North Carolina. The Company is 99% owned by American Retirement Corporation (“ARC”), a Tennessee corporation and 1% owned by ARC Charlotte, Inc., a Tennessee corporation, which is owned 100% by ARC. ARC is the managing member of the Company and is a wholly owned subsidiary of Brookdale Senior Living Inc. (“Brookdale”). Brookdale is publicly traded on the New York Stock Exchange under the symbol “BKD”. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease. All of the aforementioned entities are for profit.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

Description of the Property and Facilities

The Company is an owner and operator of a senior living community (the “Community”) located on a 45-acre site at 5800 Old Providence Road in Charlotte, North Carolina and consisting of ten apartment buildings (one, two and three story) and seven four-plex villas with two large lakes in the center of the Community. The Company is committed to providing senior living solutions through a property that is designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Community offers a variety of living arrangements and services to accommodate all levels of physical ability and health. The Community has 275 independent living units, 56 assisted living units, 34 memory care units, and 42 skilled nursing beds on one campus. The Community also has common spaces including a lobby, dining room, auditorium, game rooms, craft room, country store/snack bar, beauty/barber shop, clinic and offices. See Tables 1, 2, 3 and 4 for further detail of unit types and historical occupancy.

As a continuing care retirement community (“CCRC”) licensed by the North Carolina Department of Insurance, the Company offers a 13-month Residence Agreement, renewable for successive periods of 13 months. The Community began operation in July 1988, and ARC has managed the Community since its opening. ARC assumed ownership and responsibility for the operation in May 1996. In December 2001, the Company sold the majority of the Community property and equipment to CALF and contemporaneously entered into a long-term operating lease with a 15-year term. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease.

Significant Accounting Policies

Accounts Receivable – Accounts receivable are reported net of an allowance for doubtful accounts to represent the Company’s estimate of the amount that will ultimately be realized in cash. The adequacy of the Company’s allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Late or interest charges on delinquent accounts are not recorded until collected.

ARCLP – Charlotte, LLC
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Summary of Significant Assumptions and Accounting Policies

Property and Equipment – Property and equipment are recorded at cost. Renovations and improvements, which improve and/or extend the life of an asset, are generally capitalized and depreciated over the asset life. Maintenance and repair expenditures that do not improve or extend the life of assets are expensed as incurred. Depreciation is computed using the straight-line method using the following estimated useful lives:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 7 years

Statement of Cash Flows – For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash. The statements of cash flows represent the aggregate change in cash.

Other Current Assets – Other assets primarily consist of inventory and prepaid expenses.

Tenant Deposits – Represents fully refundable tenant deposits maintained in separate bank depository accounts or certificates of deposit and are classified as “cash – restricted” on the balance sheet. Interest is accrued on such deposits for the benefit of the tenants and paid out annually.

Income Taxes – No provision for federal or state income taxes has been made as income is reported on the tax returns of the investors, as the Company is a limited liability company.

Assumptions

The occupancy rates are based on historical utilization and the experience of Management when operating similar units at other properties it owns and/or manages. Historical occupancy percentages, as presented by Management, are summarized in Table 1.

Table 1					
Historical Average Occupancy					
	2015	2016	2017	2018	As of April 2019
Independent Living Units	90.1%	93.8%	94.2%	92.4%	90.0%
Assisted Living Units	98.9%	93.9%	91.3%	93.9%	96.2%
Memory Enhanced Units	97.2%	93.5%	96.1%	94.0%	83.1%
Skilled Nursing Units	68.5%	66.9%	59.6%	58.1%	65.3%
Overall Community	89.6%	90.8%	83.4%	89.2%	87.8%

**ARCLP – Charlotte, LLC
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Summary of Significant Assumptions and Accounting Policies

Independent Living Utilization - The Company achieved stabilized independent living occupancy of 95% in 1997. The Company projects an average of 90.3% occupancy during 2019 and 90.7% throughout the remainder of the forecasted period. Average monthly rents were \$4,319 per unit during 2018 and are assumed to increase 3.8% in 2019 and each year thereafter.

Assisted Living Utilization – The Company achieved stabilized assisted living occupancy of 95% in 1997. The Company projects an average of 94.4% occupancy during 2019 and 92.6% throughout the remainder of the forecasted period. Average monthly rents were \$6,565 per unit during 2018 and are assumed to increase 4.5% in 2019 and each year thereafter.

Memory Care Utilization – The Company achieved stabilized memory-enhanced occupancy of 94.1% in 2002. The Company projects an average of 83.7% occupancy during 2019 and 87.1% throughout the remainder of the forecasted period. Average monthly rents were \$7,254 per unit during 2018 and are assumed to increase 3.7% in 2019 and each year thereafter.

Skilled Nursing Utilization – Skilled nursing beds are sheltered under CCRC regulations in the State of North Carolina and are not available to the outside community. The Company projects an average of 63.4% occupancy during 2019 and 61.9% throughout the remainder of the forecasted period. Average monthly rents were \$9,232 per unit during 2018 and are assumed to increase 2.6% in 2019 and each year thereafter.

Revenue Recognition

The Company is a rental community, and as such, the rate structure does not include entrance fees. Prior to the time of occupancy, the resident enters into a Residence Agreement and pays a \$5,050 nonrefundable membership fee for independent residents and a \$4,050 nonrefundable fee for assisted living residents. At the termination of the Residence Agreement, any prepaid expenses will be refunded to the resident, less amounts owed to the Company at that time and the costs of making any repairs to the apartment beyond normal wear and tear.

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Summary of Significant Assumptions and Accounting Policies

Independent living revenue is based upon the expected occupancy of the independent living units and the monthly service fees expected to be charged to the resident of the units. Effective for the year 2019, the monthly service fees charged to the residents of the independent living units, as provided by Management, are summarized in Table 2.

Type of Unit	Number of Units	2019 Range of Monthly Fees
Magnolia (1 BR Efficiency/Studio)	29	\$2,745 - \$3,345
Gardenia (1 BR + 1 Bath)	102	3,345 – 4,345
Cherry Blossom (1 BR Deluxe)	39	3,545 – 4,345
Dogwood (2 BR + 2 Bath)	54	4,245 – 4,545
Jasmine (2 BR Deluxe)	23	4,200 – 4,845
Villa (2 BR Deluxe)	<u>28</u>	5,295 – 5,545
Total Independent Living Units	<u>275</u>	
Weighted Average Monthly Fees		\$4,100

Monthly service fees vary based upon the location and view of the units. A second person monthly fee of \$875 is charged in the independent living units. As provided by Management, monthly service fees are assumed to increase 3.8% in 2019 and each year thereafter.

Assisted living and memory enhanced revenue are based upon the expected occupancy of the existing home for the aged beds, the assisted living units and the monthly service fees expected to be charged to the residents of the units. Effective for the year 2019, the monthly service fees charged to the residents of the assisted living units, as provided by Management, are summarized in Table 3.

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Summary of Significant Assumptions and Accounting Policies

Table 3		
Unit Configuration - Assisted Living		
Type of Unit	Number of Units	2019 Monthly Fees
Assisted Living Units:		
Studio	42	\$6,631
Deluxe Apartment	6	6,778
Alcove	6	7,645
AL/HC Semi-Private	<u>2</u>	<u>7,695</u>
Total Units/Weighted Average	<u>56</u>	<u>6,793</u>
Memory Enhanced Units:		
	34	\$7,942

The monthly service fees for the assisted living units are assumed by Management to increase 4.5% annually beginning in January 2019. The monthly service fees for the memory-enhanced units are assumed by Management to increase 3.7% annually beginning in January 2019.

Skilled nursing revenue is based upon the expected occupancy of the existing nursing center and the monthly service fees expected to be charged to the residents of the units. Effective for the year 2019, the monthly service fees charged to the residents of the nursing center units, as provided by Management, are summarized in Table 4.

Table 4			
Unit Configuration - Skilled Nursing Center			
Type of Unit	Number of Beds ⁽¹⁾	2019 Daily Room Rate	2019 Monthly Fees
Skilled - Semi-Private Beds (Medicare-certified beds)	14	\$340.00	\$10,370
ICF - Private Room	8	\$339.00	10,340
ICF - Semi-Private Beds	<u>20</u>	\$275.00	8,388
Total Nursing Units	<u>42</u>		
Weighted Average Rate and Monthly Fees		\$308.86	\$ 9,420

⁽¹⁾ Skilled Nursing Center beds are licensed as Sheltered Beds and are only available for occupancy by residents transferring from independent living or assisted living units.

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Summary of Significant Assumptions and Accounting Policies

The monthly service fees for the nursing center units are assumed by Management to increase 2.6% annually beginning in January 2019.

Other revenue consisting of income from therapy services, guest meals, processing fees and other miscellaneous items has been estimated by Management based on historical experience of the Company. Beyond 2019, other revenue is expected to vary based on overall facility occupancy as well as an inflation rate of approximately 2.3%.

Operating Expenses

Management has estimated operating expenses based on historical operating experience of the Company and the experience of other similar ARC retirement communities. Salaries and wages are based on historical salary and wage rates at the Company.

Table 5	
Staffing Levels and Average Salary - 2019	
Department	FTE's End of Year
Ancillary	41.1
General & Administrative	8.2
Nursing	23.9
Memory Enhanced	21.5
Assisted Living	17.1
Plant Operations & Maintenance	15.1
Housekeeping & Laundry	13.2
Resident Services	9.7
Food Services	41.0
Marketing	4.8
Total FTE's	195.6
Average Salary	\$34,787

The expected number of full-time equivalents (“FTE’s”) in Table 5 is based on Management’s historical experience and has been adjusted to meet the needs of the Community as the nursing beds reach stabilized occupancy. Salary and wages are assumed to increase 3.0% beginning in January 2019 and throughout the remainder of the forecasted period.

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Summary of Significant Assumptions and Accounting Policies

The cost of employee benefits, consisting of payroll taxes, health care insurance, and other miscellaneous items is estimated by Management to approximate 20.8% of salaries and wages. The assumed increase in fringe benefits is based on the assumed increase in staffing, salaries and wage rates.

Estimated dietary expense consists of raw food and dietary supplies costs. These costs are based on the historical experience of the Company. Management assumes raw food and dietary supplies would vary according to the number of residents in the Community. Raw food costs and dietary supplies are assumed by Management to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The cost of utilities is based on the operating experience of the Company. Utility costs are assumed to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The cost of insurance is estimated by Management based upon historical experience and is assumed to decrease 10.5% annually in 2019 and to increase 2.0% annually in 2020 and throughout the remainder of the forecasted period.

The cost of other non-salary expenses including supplies, accounting, legal and other miscellaneous expenses is estimated by Management based on its experience at the Company and the experience of other similar ARC retirement communities. Non-salary expenses are assumed by Management to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The Company utilizes various management services provided by ARC. ARC collects management service fees of 5.0% of total Company revenues, related to services, which ARC has performed on behalf of the Company. Management fees to be paid to ARC by the Company are not reflected within the accompanying forecasted financial statements.

Management does not anticipate an extraordinary or significant amount of uncollectible fees during the forecasted period.

Property and Equipment

Management estimates capital additions to approximate 19.4% of annual revenue during 2019 and 2.0% for the remaining forecasted period. Such capital additions are depreciated using the straight-line method over the estimated useful lives of the related assets.

**ARCLP – Charlotte, LLC
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Summary of Significant Assumptions and Accounting Policies

Operating Reserve Fund

The North Carolina Department of Insurance (“DOI”) under Article 64 requires that CCRCs establish an Operating Reserve Fund in the form of cash, investments or other assets as permitted by the DOI, consisting of 50% of the following year’s forecasted operating expenses until they achieve a 90% occupancy level, at which time they are required to establish an Operating Reserve Fund consisting of 25% of the following year’s forecasted operating expenses. In accordance with Article 64, Management received approval from the Insurance Commissioner to establish the amount of the Operating Reserve Fund at 25% of the forecasted operating costs, less certain deductions as defined by law and the Insurance Commissioner, for a 12-month period.

Management’s assumed Operating Reserve Fund amounts for each year during the forecasted period are based on projected occupancy rates above 90%, indicating an Operating Reserve Fund equal to 25% of the forecasted annual operating expenses, less depreciation, amortization, and certain other deductions as defined by law and the Insurance Commissioner.

Long-Term Debt

In August 2017, the Company obtained \$95.8 million of debt secured by first mortgages on the Community. Sixty percent of the principal amount bears interest at a fixed rate, with one half of such amount bearing interest at 4.43% and maturing in 2024 and the other one half bearing interest at 4.47% and maturing in 2027. Forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 241.5 basis points and matures in 2027. The proceeds from the refinancing were primarily utilized to repay \$50.7 million of outstanding mortgage debt scheduled to mature in August 2018.

In 2018, the Company removed one community from the Community's loan portfolio which resulted in a reallocation of additional mortgage debt to the Community of \$1.9 million.

Distributions to Members

Management assumes distributions may be made to Members of the Company. Such distributions are assumed to be conditional upon the Company’s compliance with all minimum Operating Reserve Fund requirements as set forth by the DOI. Management has assumed the Company may distribute unrestricted cash balances that exceed 20 days of operating cash on hand.



INDEPENDENT LIVING RESIDENCY AND SERVICES AGREEMENT

This Residency and Services Agreement (“Agreement”) is made and entered into as May 25, 2017 by and between ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (“Community,” “us,” “we” or “our”) a residential community located at 5800 Old Providence Rd., Charlotte, NC 28226 and Test Smith (“Resident,” “you” or “your”). If more than one person enters into this Agreement, the words “Resident,” “you” or “your” shall include both persons, unless context otherwise indicates. The terms and conditions of the Agreement are as follows:

I. **ACCOMMODATIONS & SERVICES.**

A. **Accommodations.**

1. **Community.** The Community is a licensed independent living senior residential community/Continuing Care Retirement Community.
2. **Apartment.** You have elected to live in the apartment noted on Exhibit A (“Apartment”). The Apartment contains such furnishings and amenities as described in the Addendum to this Agreement.
3. **Common Areas.** You are entitled to use and enjoy, on a non-exclusive basis, the Community’s grounds and common areas, subject to our rules and regulations. You agree that your use of the common areas will not unreasonably interfere with its normal and customary use by any other person entitled to use such areas. We may eliminate, modify or expand common areas in our sole discretion and without notice. You acknowledge that not all common areas may be available at all times. Unavailability of the common areas does not constitute a breach of this Agreement.
4. **Furnishings.** You may furnish your Apartment with your own furniture, small appliances, special equipment, and personal property, provided that our safety standards are met. You will be responsible for removing all furnishings and personal belongings after you vacate your Apartment.

B. **Basic Services.** We will provide you with the following Basic Services, which are included in the Monthly Fee, subject to the terms of this Agreement:

1. **Meals.** We will provide meals as set forth in the Addendum to this Agreement. Other meals and meal delivery are available for an additional charge as listed on Exhibit X. The meals served are not designed for any specific diet or dietary restrictions.
2. **Utility Service.** Unless otherwise noted in the Addendum to this Agreement, the cost of gas, electricity, water and sewer service, basic cable, satellite or comparable television service is included. You are responsible for paying any other utility charges including, but not limited to, telephone, internet charges or premium cable charges.
3. **Housekeeping Service.** We will provide light housekeeping in your Apartment as set forth in the Addendum to this Agreement. Other housekeeping services are available for an additional charge as listed on Exhibit X.

4. **Laundry.** We will provide laundry services and facilities as set forth in the Addendum to this Agreement. Additional personal laundry service is available for an additional charge as listed on Exhibit X.
 5. **Grounds Keeping.** We will provide grounds keeping care, including landscaping, snow removal, external painting and outside window cleaning, as we deem appropriate.
 6. **Social & Wellness Programming.** We will provide planned social, recreational and wellness programs. An additional charge may apply to certain activities.
 7. **Transportation.** We will make available scheduled transportation as set forth in the Addendum to this Agreement. All other transportation costs, including taxi and ambulance charges, are your responsibility.
 8. **Parking.** You may have access to an unreserved parking space on a first-come, first-serve basis. Additional parking will be available as set forth in the Addendum to this Agreement.
 9. **Emergency Call System.** Your Apartment will be equipped with an emergency call system that can be activated to alert staff to emergencies. In the event of an emergency, you may also call local emergency personnel (police, fire, ambulance) by dialing 911.
 10. **Select Services.** Select Services are available to you at your request. Such services may include, but are not limited to additional meals, guest meals, transportation beyond that which is included in the Monthly Fee or special events. Such additional services are not included in the Monthly Fee. A list of the available Select Services as well as the associated prices is found on Exhibit X to this Agreement.
- C. **Change in Services.** We will provide thirty (30) days written notice of any change in the scope of services we provide.
- D. **Condition and Use of Premises.** If you incurs mental or physical illness which makes it medically necessary for you to be transferred to the Assisted Living residency, Memory Care, Health Care, or another appropriate facility, then you will be transferred to the appropriate level of care. This is determined and based on the opinions of our medical staff and in consultation with your personal physician. The Community maintains a policy on our levels of care and services that are offered. These policies serve as a guide for determining when a change in level of care is necessary. Except in an emergency, a transfer or change in level of care will be made only after consulting with you or your Legal Representative.

II. **TERM.**

- A. **Right of Occupancy.** You understand and agree that you are not acquiring any ownership, leasehold, or management interest in your Apartment, the Community, our assets including furnishings and fixtures in your Apartment and in the common areas, or any part thereof. This Agreement provides a right of occupancy of the Apartment and non-exclusive use of specified common areas of the Community. The right of occupancy and use is personal to you and cannot be transferred, assigned or pledged to any other person or entity, except as otherwise provided herein. Your right of occupancy is also subject to termination as provided herein. You agree that the Community and the Apartment are in satisfactory, habitable condition, and you accept occupancy of the Apartment in its current condition.
- B. **Term.** The initial term of this Agreement shall be for thirteen (13) months from the date listed in Exhibit A (“Commencement Date”) and shall continue until either party terminates in accordance with the termination provisions stated herein (“Term”).

Residents may rescind their Agreement within thirty (30) days following the later of the execution of their Residency Agreement or the receipt of a disclosure statement that meets the requirements of N.C.G.S. §58-64-20. Residents are not required to move into the Carriage Club Providence before the expiration of the thirty (30) day rescission period.

If a resident dies before occupying a living unit at the Community, or if, on account of illness, injury, or incapacity, is precluded from occupying a living unit at the Community under the terms of his or her Agreement, the Agreement is automatically canceled.

For rescinded or canceled Agreements under the two paragraphs immediately above, the resident or resident's legal representative shall receive a refund of all money or property transferred to the Community, less (i) Periodic charges specified in the Agreement and applicable only to the period the Agreement is in effect; (ii) those nonstandard costs specifically incurred by the Community at the request of the resident and described in the Agreement or any amendment to the Agreement signed by the resident; and (iii) non-refundable fees, if set out in the contract. Such refund will take place within thirty (30) days of receipt of written notification.

III. THIS RESIDENCY AGREEMENT WILL AUTOMATICALLY BE RENEWED FOR SUCCESSIVE PERIODS OF THIRTEEN (13) MONTHS UNLESS EITHER PARTY SHALL PROVIDE FORTY-FIVE (45) DAYS ADVANCE WRITTEN NOTICE OF TERMINATION PRIOR TO THE EXPIRATION OF THE CURRENT TERM.

IV. FEES.

- A. **Community Fee.** A one-time non-refundable Community Fee in the amount indicated in Exhibit A must be paid at the time this Agreement is signed. The Community Fee is neither a security deposit nor an application fee and does not excuse you from financial responsibility for any damage caused to the Apartment or the Community other than reasonable wear and tear, or any other outstanding fees and charges.
- B. **Monthly Fee.** You agree to pay the Monthly Fee ("Monthly Fee") indicated on Exhibit A. If this Agreement is for two residents, you are responsible for paying the Second Person Fee ("Second Person Fee") set forth on Exhibit A. You are responsible for paying all applicable sales and use taxes, if any. The Monthly Fee, the Second Person Fee, if applicable, and any other recurring charges included on the monthly statement are collectively called the "Total Monthly Fee."
- C. **Select Services.** You agree to pay the established charges for any Select Services we provide to you.
- D. **Resident Absence.** Unless otherwise noted in the Addendum to this Agreement, if you are absent from the Community for any reason, the Agreement will remain effective and you will be charged the full Total Monthly Fee. If you provide written notice of your intent to terminate the Agreement pursuant to Section VII, termination will be effective and charges will cease the later of the end of any applicable notice period or the removal of all of your personal belongings.
- E. **Payment.** The Total Monthly Fee, plus any applicable sales and use taxes, are due and payable, without offset, on or before the first day of each calendar month. The Total Monthly Fee, which shall be made payable to Brookdale Senior Living Inc., shall be mailed to the address on the invoice or such other address as we may designate. The Total Monthly Fee for the first month will be pro-rated if occupancy commences on a day other than the first

day of the month. We will issue a statement for any Select Services you have received during the prior month. Payment is due within 10 days of the issuance of such invoice.

We will charge a \$250.00 late fee if payment is not received when due. We will also charge a \$50.00 returned payment fee for each check or automatic withdrawal that is returned by a financial institution for any reason. After a financial institution returns two payments to the Community, you must pay the Total Monthly Fee and any other amounts due by cashier's check or such other method specified by us. You agree to pay interest on all amounts not paid by the due date. The interest rate will be the lesser of 1.5% per month or the highest rate permitted by law.

- F. **Fee Changes**. The Monthly Fee and Second Person Fee may be changed at our sole discretion. We will give at least **thirty (30) days** written notice of an increase to the Monthly Fee, Second Person Fee, and Total Monthly Fee. If you do not accept the proposed fee changes, you may terminate this Agreement by providing written notice of termination, which termination notice must be received within **thirty (30) days** of the date of our fee change notice. We may increase the fees for Select Services at any time upon **thirty (30)** days prior written notice.

V. MAINTENANCE, REPAIRS AND ALTERATIONS.

- A. **Maintenance and Repairs**. We will be responsible for making all necessary repairs to your Apartment. However, you will be responsible for reimbursing us for the cost of any repairs to your Apartment that are not the result of normal wear and tear. You agree to use appliances provided by us only in the manner described in the manufacturer's instructions. To the extent we agree to perform maintenance on your personal property, you shall agree to pay the cost thereof.
- B. **Structural and Non-Structural Alterations**. You may make reasonable alterations, additions, or modifications to your Apartment, whether based on a disability or not, provided that: (1) you obtain prior written approval from the Executive Director to make the specific alterations, additions, or modifications; (2) you contract for these changes prior to beginning alterations directly with us or with a contractor approved by us; and (3) you assume sole financial responsibility for these changes. All such changes must be in compliance with applicable safety and government codes and regulations. If you have a disability and need a reasonable modification (a structural change to afford you equal opportunity to use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. The cost of any alterations made by you shall be paid by you unless otherwise agreed to in writing. You shall not make holes in the floors, walls or fixtures of the Apartment without our prior written approval. You agree that you will bear the cost of restoring the apartment to its original condition, reasonable wear and tear excepted, upon termination of this Agreement, unless we specifically exempt you from this requirement in writing. We may enter and make any modifications or alterations to the Apartment to meet the requirements of any applicable laws.
- C. **Damages**. You agree to maintain your Apartment in a clean, sanitary and orderly condition, normal wear and tear accepted. You are liable for any damages to the Apartment or any other part of the Community that are beyond normal wear and tear or caused by the negligence or misconduct of you or your guests (including any agent, employee, contractor, or other invitee) including any related costs, expenses and reasonable attorneys' fees. If your non-compliance or breach of this Agreement can be remedied by repair or replacement of a damaged item or cleaning and you fail to remedy such non-compliance or breach as

promptly as circumstances require in the case of an emergency or, in any event, within fourteen (14) days after written notice from us to you specifying the non-compliance or breach and requesting that you remedy such non-compliance or breach within that period of time, you agree that (i) we may enter the Apartment and cause the work to be done in a workmanlike manner and (ii) we may invoice you for the actual and reasonable cost. This provision will survive termination of this Agreement.

- D. **Right of Entry**. Our associates must be permitted to enter your Apartment to provide services under the terms of this Agreement, to respond to emergencies, to make repairs and improvements, or if there is reasonable belief that your safety or safety of others is in question or that our policies and procedures are being violated, as we deem necessary or advisable. Therefore, you may not change the locks or install additional locks to your Apartment's entrance door. When feasible, our associates will attempt to give you reasonable notice before entering your Apartment.
- E. **Transfers from Apartment**. If you relocate to a different apartment, you are responsible for paying the then-current transfer fee. The transfer fee will not apply if the transfer is initiated at our request to comply with any law or lawful order of any authorized public official, or for any other reasonable purpose, as determined by us. You agree to such substitution, and to pay the Monthly Fee for your new Apartment and any Second Person Fee if applicable. We shall make reasonable efforts to substitute your Apartment with a substantially similar Apartment.
- F. **No Tenancy Interest**. You have none of the rights of a tenant under this Agreement, subject to applicable laws of the State of North Carolina.

VI. RESIDENT RESPONSIBILITIES AND REPRESENTATIONS.

- A. **Conditions of Residency**. You understand and agree that, to be accepted into the Community, you must be at least sixty-two (62) years of age. You are required to meet the conditions of residency, independently or with the assistance of a third party.
- B. **Rule & Regulations Compliance**. You acknowledge receipt of and agree to abide by our rules and regulations including our general policies contained in the Resident Handbook ("Rules and Regulations"), as they now exist or as they may be amended in our sole and absolute discretion. If you have a disability and need a reasonable accommodation (a change in our rules or policies to equally use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. You understand that failure to abide by the Rules and Regulations may result in termination of this Agreement. The Rules and Regulations are incorporated by reference into this Agreement. In the event of a conflict between the terms of this Agreement and the Rules and Regulations, the terms of this Agreement shall control.
- C. **Responsibility for Resident's Care**. You shall be responsible for your personal care and health care needs. You hereby indemnify, hold harmless and release us and our directors, agents, and employees, from any and all liability, cost and responsibility for injury and damage, including attorneys' fees, arising from your failure to obtain, or from others' failure to furnish (excepting a corporate affiliate solely with respect to any services required to be provided by such affiliate pursuant to a fully executed service agreement), appropriate personal care or health care services, and from all injury and damage which could have been avoided or reduced if such services had been obtained or furnished.
- D. **Obligatory Information**. You agree to provide accurate, complete and current information about yourself and about any emergency contact, including but not limited to addresses,

phone numbers, and email address. You understand that you must promptly notify us of changes to the information stated above. If you do not have advance directives in place, you understand that a court may appoint a guardian to make decisions on your behalf if you are no longer able to do so. Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, you agree to pay any costs associated therein.

- E. **Motorized Vehicles and Carts.** You may use a motorized vehicle, subject to the following:
1. Your ability to walk is substantially limited due to a disability;
 2. Your operation of the vehicle does not pose a threat to the health and safety of yourself or others;
 3. The vehicle is operated at a low speed setting; and
 4. You agree to abide by our safety guidelines for the use of motorized vehicles on the premises, which may be modified from time to time.

Reasonable accommodations will be made to the rules, policies and practices (upon a showing of necessity) so long as the requested accommodation does not constitute a threat to the health or safety of you, the other residents, our associates or visitors.

You agree to pay for all damages to others or to the Community, which are caused by you or your motorized vehicle and that we may invoice you for such costs. You further understand and agree that we may, at our sole discretion, prohibit your further use of a motorized vehicle at any time.

- F. **Guests.** You may have guests overnight in the Apartment, but if you desire to have guests overnight for more than seven (7) days in any one month, you must obtain the Executive Director's prior written consent. You are responsible for the charges incurred by and actions of any guest. No more than two (2) overnight guests may be present in your Apartment without our prior written consent. No guests are permitted overnight in your Apartment if you are not present, unless you obtain approval from us. You may not charge guests for the use of the Apartment. Your guests shall abide by our Rules and Regulations. When visiting the Community, guests have the right to park only in the area designated by us. You may bring guests to the dining room to the extent space is available, with Community residents having first preference. The charge for guests' meals is listed in Exhibit X. Any private duty personnel providing services to you are not considered guests and are not entitled to the same privileges as guests.

If your guests become disruptive to our operations and/or are verbally or physically abusive to staff, residents or others, we may request that they leave the Community until their behavior is under control or may place limitations upon the location and time of their visitation. You understand that, where circumstances warrant, we may exclude such individuals from the Community.

- G. **Financial Requirements.** You agree that we have the right to require you to provide financial information and to be approved by us as having sufficient assets and income to pay the Total Monthly Fees and other charges related to occupancy. We also reserve the right to require updated financial information prior to the effective date of this Agreement.
- H. **Joint Occupancy.** If there is more than one Resident entering into this Agreement, each Resident is responsible for any payments due to us and is entitled to all the benefits and services under this Agreement. In the event that one of you moves out, or your occupancy is otherwise terminated for whatever reason, the Total Monthly Fee will be reduced by the

amount of the Second Person Fee then in effect. The remaining Resident may continue to reside in the Apartment or move to a smaller Apartment, if available, and pay the market rate then in effect for a smaller Apartment or may find another resident to occupy the Apartment provided such resident meets all requirements for such occupancy in the Apartment. In these circumstances, to add a new occupant to the Apartment, you must obtain our prior written approval and we will require such person to be added to the Residency Agreement and pay the Second Person Fee then in effect. Each potential resident must meet all age and financial requirements before being accepted.

- I. **Use of Apartment.** You agree to use the Apartment only for residential purposes and not for business purposes or the practice of any profession without our express prior written consent. You agree not to conduct an auction or sale in the Apartment which is improper, offensive, or contrary to law or ordinance.

VII. SERVICES NOT COVERED BY AGREEMENT.

- A. **Excluded Services.** We are not responsible for furnishing or paying for any health care items or services not expressly included in this Agreement. If the service is not something that we have agreed to provide you, then it will be considered an excluded service, and you must furnish it at your own expense.
- B. **Third Party Providers.** All outside caregivers, companions, private duty aides and other personnel employed or retained by you to provide services at the Community (“Private Duty Personnel”) shall be subject to the Rules and Regulations, and other policies, including, without limitation, the Standards of Performance & Conduct for Private Duty Personnel Employed by Residents, available upon request. If you retain or otherwise use the services of Private Duty Personnel, you agree to indemnify and hold harmless us and our officers, directors, shareholders, affiliates, employees, contractors, representatives and agents and their respective successors and assigns, from and against all losses, costs, damages and liabilities (including reasonable attorneys’ fees) arising out of the acts or omissions of any such Private Duty Personnel. We reserve the right to refuse to permit certain Private Duty Personnel from entering the Community if we have reason to believe that such Private Duty Personnel fails to adhere to our standards or poses a threat to residents or others. We are not responsible for screening or evaluating the competence or ability of any Private Duty Personnel.
- C. **Hiring of Associates.** You may not hire our current associates to provide services in the Community. You may contract with former associates to perform any services at the Community only with our consent. We reserve the right to refuse entry to (1) former associates; (2) persons whose actions may be disruptive to the Community; or (3) persons whose actions may threaten the safety of any resident or associate.

VIII. TERMINATION.

- A. **Termination by Either Party.** Either party may terminate this Agreement:
 1. Upon sixty (60) days advance written notice.
 2. Immediately in the event of your death.

For terminations under this Section, you will be responsible for paying all amounts due under this Agreement until the later of the expiration of the notice period, or until all of your belongings are removed and the Apartment keys are returned to the Community.

- B. **Breach by Resident.** We may terminate this Agreement upon ten (10) days written notice:
1. If you are in default of payment of any amounts due under this Agreement and you fail to cure such default within ten (10) days' notice;
 2. You violate any of the terms, covenants or conditions of this Agreement, or the Rules and Regulations;
 3. You or your guests are habitually disruptive, create unsafe conditions, are physically or verbally abusive to other residents or individuals or otherwise impair the welfare of yourself or others;
 4. You acquire a condition or engage in conduct that interferes with or jeopardizes the health, safety, and/or peaceful lodging of any other individual at the Community or interferes with the performance of Community staff members' duties;
 5. You engage in conduct constituting a nuisance, illegal use of the premises, or waste;
 6. You materially damage the Residence and/or property of the Community;
 7. For your welfare or the welfare of others;
 8. If the Community ceases to operate.
- C. **Immediate Termination.** We may, upon written notice to you, immediately terminate the Agreement, and transfer you or require you to move if:
1. You engage in conduct that poses a danger to yourself or others;
 2. You engage in criminal activity in your unit or you, members of your household or your guests have engaged in criminal activity on or in the immediate vicinity of the Community;
 3. You require emergency relocation to a hospital; or
 4. You become incapable of providing or fail to provide for your health care or personal care needs.
- Any determination that you are required to move for the reasons set forth in this paragraph shall be made in our sole judgment.
- D. **Effect of Joint Occupancy upon Termination.** Notwithstanding the foregoing, if this Agreement applies to two (2) Residents, it will remain in full force and effect after either the death of one of the Residents or if a termination occurs as detailed herein as to one (1) of the Residents, subject to adjustments as defined herein.
- E. **Vacating Apartment.** You will vacate the premises, removing all of your personal property on or before the effective date of termination. If you fail to remove your belongings by the effective date of termination, you understand and agree that we will continue to charge you the Monthly Fee for your Apartment. If the amount of belongings does not preclude renting the Apartment, we may clear the Apartment and charge you for moving and storing the items. If your possessions are not claimed within thirty (30) days after notification, we may dispose of them. You will provide written notice of a forwarding address where you can be reached and receive mail.
- F. **Condition of Apartment.** Upon termination of the Agreement, you will leave the Apartment in a clean and tenantable condition and in the same condition as it existed at the beginning of the Agreement, except for reasonable wear and tear and any alterations or

additions made that we elect to retain. You agree to reimburse us for any and all costs of restoring the Apartment to the condition existing at the beginning of your occupancy.

- G. **Effect of Termination.** Termination will not release either party from any liability or obligation to the other party under the terms of this Agreement.
- H. **Services Pending Termination.** You acknowledge and agree that, pending termination of the Agreement due to requiring services or staff not available in the Community, we may arrange for the provision of one-on-one care and you will pay for such care if we determine that such care is needed to protect your health or safety or the health or safety of others.

IX. AGREEMENT TO ARBITRATE.

SHOULD ANY OF SUBSECTIONS A & B PROVIDED BELOW, OR ANY PART THEREOF, BE DEEMED VOID OR INVALID, THE VALIDITY OF THE REMAINING SUBSECTIONS, OR PARTS THEREOF, WILL NOT BE AFFECTED.

A. **Arbitration Proceedings.**

1. Any and all claims or controversies arising out of, or in **any** way relating to, this Agreement or any of your stays at the Community, excluding any action for eviction or involuntary discharge, and including disputes regarding interpretation, scope, enforceability, unconscionability, waiver, preemption and/or violability of this Agreement, whether arising out of State or Federal law, whether existing or arising in the future, whether for statutory, compensatory or punitive damages and whether sounding in breach of contract, tort or breach of statutory duties, irrespective of the basis for the duty or the legal theories upon which the claim is asserted, shall be submitted to binding arbitration, as provided below, and shall not be filed in a court of law. **The parties to this Agreement further understand that a judge and/or jury will not decide their case.**
2. The parties hereby expressly agree that this Agreement, the Admission Agreement and the Resident's stays at the Community substantially involve interstate commerce, and stipulate that the Federal Arbitration Act ("FAA") shall exclusively apply to the interpretation and enforcement of this Agreement, and shall preempt any inconsistent State law and shall not be reverse preempted by the McCarran-Ferguson Act; United States Code Title 15, Chapter 20, or other law. Any party who demands arbitration must do so for all claims or controversies that are known, or reasonably should have been known, by the date of the demand for arbitration, and if learned of during the course of the arbitration proceeding shall amend the claims or controversies to reflect the same. All current damages and reasonably foreseeable damages arising out of such claims or controversies shall also be incorporated into the initial demand or amendment thereto.
3. A demand for Arbitration by you, your legal representative, a person or organization acting on your behalf with your consent, or the personal representative of your estate (collectively "Resident Party") shall be made in writing and submitted to Timothy Cesar, Brookdale Senior Living Inc., 6737 W. Washington St. #2300, Milwaukee, WI 53214, via certified mail, return receipt requested. Demand for Arbitration by us shall be made in writing and submitted to you or your agent, representative, successor or assign and/or your legal representative via certified mail, return receipt requested.
4. The arbitration proceedings shall take place in the county in which the Community is located, unless agreed to otherwise by mutual consent of the parties.

5. The arbitration panel shall be composed of one (1) arbitrator. Subject to the requirements of Section VIII.A.6. below, the parties shall agree upon an arbitrator that must be a member of the North Carolina Bar with at least ten (10) years of experience as an attorney. If the parties cannot reach an agreement on an arbitrator within twenty (20) days of receipt of the Demand for Arbitration, then each party will select an arbitrator. These arbitrators will act only for the purpose of appointing a sole arbitrator to hear the case, subject to the criteria above. If either party fails to select their arbitrator within the (20) days mentioned above, they effectively forfeit their right to choose an arbitrator.
6. The arbitrator shall be unbiased of all parties, witnesses, and legal counsel. No past or present officer, director, affiliate, subsidiary, or employee of a party, witness, or legal counsel may serve as an arbitrator in the proceeding.
7. Discovery in the arbitration proceeding shall be governed by the North Carolina Rules of Civil Procedure. However, discovery may be modified by agreement of the parties.
8. The arbitrator shall designate a time and place within the county in which the Community is located, for the arbitration hearing and shall provide thirty (30) days' notice to the parties of the arbitration hearing.
9. The arbitrator shall apply the North Carolina Rules of Evidence and North Carolina Rules of Civil Procedure in the arbitration proceeding except where otherwise stated in this Agreement. Also, the arbitrator shall apply, and the arbitration decision shall be consistent with, North Carolina law except as otherwise stated in this Arbitration Provision.
10. The arbitration decision should be signed by the arbitrator and delivered to the parties and their counsel within thirty (30) days following the conclusion of the arbitration. The decision shall set forth in detail the arbitrator's findings of fact and conclusions of law.
11. The arbitrator's decision shall be final and binding and such decision may only be vacated or modified as allowed by the Federal Arbitration Act.
12. The arbitrator's fees and costs associated with the arbitration shall be divided equally among the parties. The parties shall bear their own attorneys' fees and costs and hereby expressly waive any right to recover attorney fees or costs, actual or statutory.
13. The arbitration proceeding shall remain confidential in all respects, including the Demand for Arbitration, all arbitration filings, deposition transcripts, documents produced or obtained in discovery, or other material provided by and exchanged between the parties and the arbitrator's findings of fact and conclusions of law. Following receipt of the arbitrator's decision, each party agrees to return to the producing party within thirty (30) days the original and all copies of documents exchanged in discovery and at the arbitration hearing, except those documents required to be retained by counsel pursuant to law. Further, the parties to the arbitration also agree not to discuss the amount of the arbitration award or any settlement, the names of the parties, or name/location of the Community except as required by law.
14. This Arbitration Provision binds third parties not signatories to this Arbitration Provision, including any spouse, children, heir, representatives, agents, executors, administrators, successors, family members, or other persons claiming through the Resident, or persons claiming through the Resident's estate, whether such third parties make a claim in a representative capacity or in a personal capacity. Any claims or grievances against the Community or the Community's corporate parent, subsidiaries,

affiliates, employees, officers or directors shall also be subject to and resolved in accordance with this Arbitration Provision.

15. The terms of this Arbitration Provision are severable.

16. The Arbitration Provision shall survive the termination of this Agreement and/or your death.

- B. **BENEFITS OF ARBITRATION.** The parties' decision to select arbitration is supported by the potential cost-effectiveness and time-savings offered by selecting arbitration, which may avoid the expense and delay of judicial resolution in the court system. The parties' decision to select arbitration is supported by the potential benefit of preserving the availability, viability, and insurability of a long term care company for the elderly and disabled in North Carolina, by limiting such company's exposure to liability. With this Agreement, we are better able to offer our services and accommodations at a rate that is more affordable to you. In terms of the potential time-savings offered by selecting arbitration, the parties recognize that selecting a quick method of resolution is potentially to a resident's advantage.

You and/or your legal representative understand that other long term care companies' Agreements may not contain an arbitration provision. The parties agree that the reasons stated above are proper consideration for the acceptance of the Arbitration Provision. **The undersigned acknowledges that he or she has been encouraged to discuss this Agreement with an attorney.**

The parties to this Agreement further understand that a judge and/or a jury will not decide their case.

X. MISCELLANEOUS.

- A. **Waiver of Jury Trial.** If a court determines that the Arbitration Provision provided in this Agreement is invalid, the parties expressly waive a jury trial and agree to resolve their claims in the appropriate court solely before a judge.
- B. **Risk Agreement.** You are responsible for your personal, financial and health care decisions. In addition, you are responsible for maintaining at all times your own health, personal property, liability, automobile (if applicable), and other insurance coverages in adequate amounts. You agree to obtain insurance with coverage for your personal property and your general liability. You acknowledge that we are not an insurer of your person or property. You understand and agree that:
1. You may be encouraged to participate in Community, leisure, and social activities and to maintain an appropriate level of independence in activities of daily living, as well as your personal and financial affairs;
 2. Independent activities, responsibility for personal, financial, and health care decisions, and lifestyle and care preferences may involve risks of personal injury and/or property damage or loss;
 3. Throughout the Community, there may be public balconies and/or a balcony in your Apartment. If you choose to use such balcony, you do so at your own risk. We are not responsible for any injury that may result from use of a balcony. We are also not responsible for damage or loss of any property used or placed on a balcony;
 4. The services we provide may not meet all of your personal, social, or health care needs;
 5. We make no representations or guarantees that the Community is secure from theft or any other criminal act perpetrated by any other Resident or person; it is recommended

that valuables, including but not limited to, jewelry and large amounts of money, not be brought into the Community. If you choose to bring in such valuables, you are doing so at your own risk and we will not be responsible for any theft or loss of these items;

You understand and agree to assume the risks inherent in this Agreement. You agree to hold us and our employees and agents harmless for any damages or injury or other loss resulting from: (1) reasonable acts or omissions made in good faith; (2) action of any third party, fire, water, theft or the elements; (3) loss of personal property; (4) your failure to obtain appropriate health care or personal care services; (5) the failure of your chosen provider of health care or personal care services to furnish such services; or (6) injury and damage which could have been avoided or reduced if health care or personal care services had been obtained or furnished. We will only be liable for damages, injuries or other losses to you or any third party entering an Apartment, or any other part of the Community, if due to our willful misconduct or negligence.

We reserve the right to recover from you any loss caused by fire, vandalism or any other acts by you or your invitees or guests. We may assign such right to our insurance carrier.

- C. **Smoking**. Smoking is not permitted in any part of the Community, including your Apartment.
- D. **Pets**. You may have a household pet in your Apartment, subject to (1) our prior written approval, (2) execution of a Pet Agreement, which is available upon request and (3) payment of any applicable pet fee. You agree to pay for any damage to our property or the property of others caused by your pet. We reserve the right to require the permanent removal of your pet for failure to adhere to the Pet Agreement or our applicable policies and rules, or if we have reason to believe that your pet poses a threat to others or the Community.
- E. **Waiver**. Our failure in any instance or instances to insist upon your strict performance or observation of or compliance with, any of the terms or provisions of this Agreement, shall not be construed to be a waiver or relinquishment of its right to insist upon your strict compliance with all of the terms and provisions of this Agreement.
- F. **Remedies**. In the event of any termination of this Agreement, and in addition to any other remedies set forth in this Agreement or available at law or in equity, we may enter into an agreement with others for occupancy of the Apartment, and you will remain obligated for all fees, charges and other obligations incurred or accrued through the date of such termination.
- G. **Notices**. Notices, other than for arbitration, will be written and given by personal delivery or mailing by regular mail, postage pre-paid to the following or such other persons or places as the parties may notify each other. Notices shall be deemed given based upon the date personally delivered or upon the date postmarked.

The Community:
Executive Director at Community

Resident:
(as noted at end of this Agreement)

- H. **Captions**. The captions of the Sections hereof are for convenience only and in no way shall limit, enlarge, define or otherwise affect the scope or intent of this Agreement or any provisions hereof.
- I. **Non-Discrimination**. We do not discriminate on the basis of race, religion, national origin, gender or disability. We are not affiliated with any religious organization.

- J. **Federal Law**. Nothing in this Agreement shall be construed to violate any provision of Title VI of the Housing and Community Development Act.
- K. **Subordination**. This Agreement and the parties' rights under it will be subordinate to any ground lease, mortgage or deed of trust now or hereafter placed upon the Community, but your right to remain in possession of your Apartment will not be disturbed so long as you comply with all of the provision of this Agreement. Resident shall, within ten (10) days of receipt thereof, promptly execute and deliver such written instruments as shall be necessary to show the subordination of this Agreement to said mortgage, lease, land use restriction or other such instrument in the nature thereof.
- L. **Heirs and Successors**. This Agreement is for the benefit of and binds the parties and their respective heirs, representatives, successors and assigns.
- M. **Time of the Essence**. Time is of the essence hereunder.
- N. **Amendments**. Except for our right to modify fees, rates and charges, amend services provided and establish reasonable operating procedures and rules for the general welfare and safety of the residents, this Agreement may be amended only in writing signed by both parties.
- O. **Assignment**. We may engage another person or entity to perform any or all of the services under this Agreement.
- P. **Indemnification**. You shall indemnify, defend and hold harmless us and our officers, directors, shareholders, affiliates, employees, representatives and agents, and their respective heirs, legal representatives, successors and assigns, from and against any and all losses, costs, damages and expenses incurred, whether in the Apartment, in any portion of the Community or on our grounds or while in transit thereto or therefrom, or for any injury to person or property of others, resulting from the negligence, recklessness or intentional act or omission of you or your guests. Further, if you retain, or otherwise use, the services of private duty aides or other third party care givers, you shall indemnify and hold harmless us and our officers, directors, employees, contractors, representatives and agents and their respective successors and assigns, from and against all reasonable losses, costs, damages and liabilities (including reasonable attorneys' fees and costs) arising out of the acts or omissions of any private duty aide or other third party care giver or their officers, directors, employees, contractors, representatives and agents and their respective successors and assigns. We are not responsible for payment or reimbursement of health care costs that you incur resulting from the acts or omissions of any third party provider.
- Q. **Reliance**. You warrant that all information contained in the documents supplied by you as part of the application and admission process are true and correct, and that, in your judgment, your income and assets are and will remain adequate to meet your financial obligations under this Agreement and you understand that we have relied on this information in accepting you at the Community. All personal and other information required to be submitted by you constitutes a material part of this Agreement and any material misrepresentation or omission renders this Agreement terminable at our option.
- R. **Severability**. Should any part of this Agreement or the Exhibits be invalid, the validity of the other parts of this Agreement or Exhibits will not be affected.
- S. **Waiver of Subrogation**. The parties waive any rights each may have against the other, on account of any loss or damage occasioned to Resident or the Community, as the case may be, their respective property, the Community or its contents, or the Apartment or its contents, arising from any risk covered by valid and enforceable insurance, to the extent of such

coverage. The Community and Resident each agree to take any action reasonably requested by the other party to verify the effectiveness of this waiver of subrogation.

- T. **Entire Agreement.** This Agreement, including the Exhibits any attachments and the Resident Handbook constitute the entire agreement between Resident and the Community. We are not liable for and not bound in any manner by any statement made by any person representing or claiming to represent the Community, unless those statements are expressly set forth in this Agreement.
- U. **Acknowledgement.** By the signature(s) below, you acknowledge this Agreement in its entirety, acknowledge receipt of the Exhibits hereto and certify that they have read this entire Agreement in full, together with the Exhibits. You further acknowledge that you have been encouraged to discuss this Agreement with an attorney.

BY THEIR SIGNATURES, the parties or their representatives have executed this Agreement effective as of the date set forth above.

First Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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Second Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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For the Community	Title	Date
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SEND NOTICES AND MONTHLY STATEMENTS TO FIRST RESIDENT IN CARE OF:

Name: Test Smith
Address: Test Road Testa, NC 45464
Phone No.: 456-464-6465

SEND NOTICES AND MONTHLY STATEMENTS TO SECOND RESIDENT IN CARE OF:

Name: Toss Smith
Address: Test Road Testa NC 45646
Phone No.: 465-465-4654

EXHIBITS INCLUDED:

- A. Schedule of Services and Rates
- B. Authorization to Use and Disclose Information
- Addendum for Community-Specific Basic Services and Operating Policies

ADDITIONAL EXHIBITS:

- X. Select Services List

**EXHIBIT A
SCHEDULE OF SERVICES AND RATES**

Resident(s): **Test Smith**

Apartment: **102**

Commencement Date: **May 25, 2017**

Your current fees are set forth below:

I. FEES DUE ONLY AT COMMENCEMENT	FEE
Community Fee (non-refundable)	\$1,000.00
Pet Fee (non-refundable)	\$500.00
Other: Pendant Key	\$75.00
Total	\$1,575.00

II. FEES RECURRING ON MONTHLY BASIS	FEE
A. Monthly Fee	\$2,500.00
B. Second Person Fee	\$1,250.00
C. Premium Parking Fee (if applicable)	\$100.00
D. Other: Cable	\$75.00
Total Monthly Fees (Add A through D)	\$3,925.00

III. ESTIMATED ADDITIONAL FEES OCCURRING ON MONTHLY BASIS	FEE
Select Services (Generally billed in arrears)	\$200.00
Total Select Service Fees (Estimate)	\$200.00

I agree to the above Schedule of Services and Rates effective June 1, 2017, and I understand and agree that the Community has a right to change these rates and/or change the services provided in accordance with the provisions of the Residency and Services Agreement.

First Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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Second Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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For the Community	Title	Date
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Exhibit B

Authorization to Use and Disclose Information

In our efforts to enrich the lives of those we serve, ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence, , would like the opportunity to share your information with its affiliates and parent company, Brookdale Senior Living Inc. (“Brookdale”). These companies offer health care services, as well as various retirement options, that may benefit you. Brookdale has also developed associations with other companies to offer individuals and their families additional benefits like discounts, preferred access and other value-added services. For your privacy, we need your consent before sharing this information. If you would like to learn about these services and how they can assist you, please sign below.

By signing below, you agree to allow ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence to (a) provide your name, address, email, phone number and other contact information to Brookdale subsidiaries and third-party associations so they may reach out to you and (b) authorize Brookdale subsidiaries and third-party associations to send information about benefits to you and those involved in your care. Brookdale, its affiliates and its associations will not sell your information to any third party.

Uses and disclosures covered by this authorization may be made electronically, orally or on paper, such as through the mail. Signing this form is optional. Your treatment or payment for care will not be conditioned on whether you sign this form. Brookdale or its affiliates may receive remuneration in connection with your agreement to use and disclose your information as described in this form.

This authorization will remain in effect until one year after you (a) move out of a Brookdale affiliated community, (b) are discharged from receiving services from a Brookdale affiliated provider, or (c) the date you sign this authorization, whichever is applicable and the latter. You have the right to revoke this authorization at any time by notifying Brookdale in writing at 6737 W. Washington Street, Suite 2300, Milwaukee, WI 53214; Attn: Privacy Officer. Your revocation of this authorization will not be effective to the extent we have already relied upon this form (by using or disclosing information).

After your information is disclosed, it may not be governed by the federal HIPAA privacy rules and may be further disclosed by the recipient. You have the right to receive a copy of this form and to request to review and copy your information disclosed through this form.

_____/_____/_____ Test Smith
Signature of Individual or Legal Representative Date Individual’s Name

If signed by the Individual’s Legal Representative, complete the following:

Printed Name of Legal Representative: _____

Relationship to Individual and Authority of Legal Representative (e.g., health care power of attorney, guardian, other statutory authorization): _____



RESIDENCY AGREEMENT

This Agreement (“Agreement”) dated December 5, 2016 is made by and between ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company,” “us,” “we” or “our”) and Test (“Resident,” “you” or “your”).

We operate the community located at 5800 Old Providence Rd., Charlotte, NC 28226 (the “Community”) which is licensed by the State of North Carolina as a/an Adult Care Home and residency in the Community has been requested by you or on your behalf. The terms and conditions of this Agreement are as follows:

I. SERVICES AND ACCOMMODATIONS.

A. **BASIC SERVICES.** We will provide you with the following Basic Services, which are included in the Basic Service Rate, subject to the terms of this Agreement:

- ◆ **Accommodations** – You have elected to live in the Suite described in Exhibit A. You are also entitled to use and enjoy with all other residents the common areas of the Community. You are to provide your own furnishings and personal property; however, we reserve the right to limit the number and type of furnishings/small appliances. You agree that you are responsible for the maintenance and repair of any personal belongings you bring to the Community.
- ◆ **Dining Services** – Unless otherwise noted in the Addendum to the Residency Agreement, we will furnish three meals daily. Snacks are available 24 hours a day.
- ◆ **Utility Service** – Unless otherwise noted in the Addendum to the Residency Agreement, the cost of gas, electric, heat, air conditioning water, basic cable, satellite or comparable television service is included. You are responsible for paying any other utility charges including, but not limited to, telephone, internet or premium cable charges.
- ◆ **Housekeeping Service** – Unless otherwise noted in the Addendum to the Residency Agreement, we will provide light housekeeping once a week.
- ◆ **Laundry and Linen Service** – We will launder your personal belongings and bed linens as set forth in the Addendum to the Residency Agreement.
- ◆ **Activities Program** – We will provide planned social and recreational programs.
- ◆ **Parking** – Each Suite (whether occupied by one or two Residents) will have access to shared and uncovered parking spaces. Covered parking may be available as set forth in the Addendum to the Residency Agreement.
- ◆ **Transportation** – We will make available scheduled routine transportation services as described in the Addendum to the Residency Agreement.
- ◆ **Staffing 24 hours a day** – Associates are available 24 hours a day, seven days a week.
- ◆ **Wellness Assessments** – We will provide limited periodic wellness assessments to help you monitor your physical health.

We will provide thirty (30) days written notice of any change in Basic Services.

B. PERSONAL SERVICE PLAN. Prior to moving in and periodically throughout your residency, we will use a personal service assessment to determine the personal services you require. The personal service assessment will be used to develop your Personal Service Plan. The results of the assessment and the cost of providing the additional personal services (the “Personal Service Rate”) will be shared with you. Your initial Personal Service Rate is set forth in Exhibit A.

If you qualify for Medicaid services, you may receive some or all of your personal services through Medicaid’s Personal Care Services (“PCS”) Program. Qualifying for Medicaid does not necessarily mean that you will qualify to receive Medicaid PCS or that the Medicaid PCS program will meet all of your personal service needs. If you are Medicaid eligible but Medicaid determines that you do not qualify for Medicaid PCS services or you only qualify for a limited number of Medicaid PCS services, the Community may determine, based on its personal services assessment, that you require personal services not provided by the Medicaid PCS program.

If the Community’s personal service assessment determines that personal services that are not covered by Medicaid are required, you will be responsible for the personal service charges for such uncovered services in accordance with the Personal Service Rate set forth in Exhibit A.

You understand that the Personal Service Rate for uncovered personal services can be implemented by the Community at any time after a personal service assessment has been provided and it has been determined by the Community that you require personal services that you are not eligible to receive under the Medicaid PCS program.

C. AVAILABLE SELECT AND THERAPEUTIC SERVICES. Select Services and Therapeutic Services are available to you at your request. Such additional services are not included in the Basic Service Rate or the Personal Service Rate. Where available, such services may include, but are not limited to guest meals, transportation beyond that which is included in the Basic Service Rate, transportation escort services, enhanced cable television, special events or certain clinical services. The available Select Services and Therapeutic Services as well as the associated prices are found on Exhibit X and Exhibit Y to this Agreement.

D. SERVICES NOT COVERED BY RESIDENCY AGREEMENT. In addition to any Select or Therapeutic Services you may receive, in some circumstances, you may need the services of other third party providers in order to continue to safely remain at the Community. An outside agency or individual will be permitted to provide these services or any related personal services only if we have given prior approval.

You are responsible for obtaining and paying for all third party provider services, whether provided by Company affiliates, our subcontractors, third party health care and medical providers, or others. These services may include, but are not limited to, pharmacy, therapy, podiatry, dentistry, ophthalmology, home health, hospice, private companion, beauty/barber or other health care services. These third party provider services are not included in the Basic Service Rate, Personal Service Rate or rates for Select Services and Therapeutic Services. Fees for such services will be billed to you directly by the third party service provider, unless otherwise agreed to by the parties. All third party service providers (including, but not limited to, health care service providers) must agree to adhere to our standards for outside providers prior to being permitted to provide services in the Community.

You may not hire our current associates to provide services in the Community. You may contract with former associates to perform any services at the Community only with our consent. We reserve the right to refuse entry to (1) former associates; (2) persons whose actions may be disruptive to the Community; or (3) persons whose actions may threaten the safety of any resident or associate.

II. YOUR RESPONSIBILITIES AND REPRESENTATIONS.

- A. **CARE OF SUITE.** You agree that the Community and the Suite are in satisfactory, habitable condition and we have made no promise to decorate, alter or improve the Community or Suite unless otherwise provided in writing and attached as part of this Agreement. You agree to maintain the Suite and to leave the Suite upon termination of this Agreement in good condition, except for normal wear and tear. You agree to pay all damages, beyond normal wear and tear, which you (including your agent, employee, contractor, or other invitee) cause to our property. The Community may invoice you for the cost of such repairs.
- B. **ALTERATIONS.** You may make reasonable alterations, additions or modifications to your Suite whether based on a disability or not, provided that: (1) you obtain prior approval from the Executive Director to make the specific alterations, additions, or modifications; (2) you contract for these changes prior to beginning alterations directly with us or with a contractor approved by us; and (3) you assume sole financial responsibility for these changes. All such changes must be in compliance with applicable safety and government codes and regulations. If you have a disability and need a reasonable modification (a structural change to afford you equal opportunity to use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. The cost of any alterations made by you shall be paid by you unless otherwise agreed to in writing. You agree that you will bear the cost of restoring your Suite to its original condition, reasonable wear and tear excepted, upon the termination of this Agreement, unless we specifically exempt you from this requirement in writing. We may enter and make any modifications or alterations to your Suite to meet the requirements of any applicable law.
- C. **RIGHT OF ENTRY.** For your safety and comfort, our associates must be permitted to enter your Suite to provide services under the terms of this Agreement, to respond to emergencies, to make repairs and improvements, or if there is reasonable belief that your safety or the safety of others is in question or that our policies and procedures are being violated, as we deem necessary or advisable. Therefore, it is not permissible to change the locks or add additional locks to the entrance door to your Suite. When feasible, our associates will attempt to give you reasonable notice before entering your Suite.

We reserve the right to relocate you to a more appropriate Suite within the Community as required for your health or safety, or because the residents of a companion Suite are incompatible.

- D. **HEALTH ASSESSMENT.** The Community will only admit and retain residents who meet the criteria established from time to time by §§ 131 D-2 of the North Carolina General Statutes and Chapter 13, Subchapter 13F, Title 10A of the North Carolina Administrative Code, for Adult Care Homes.

You agree that we may assess your health to create and update a Personal Service Plan and/or to determine whether you are appropriate to remain at the Community. Not more than thirty (30) days prior to the date of this Agreement, and at least annually thereafter or upon our request, you agree to undergo an examination by your physician (or other licensed provider as allowed by law). You agree to undergo examination by a particular specialist, at your cost, as we determine is warranted by your current physical or mental status. You will request the examiner to provide us with recommendations, including a statement attesting to the appropriateness of your continued placement. Based upon the assessment(s) and our judgment, we may determine your appropriateness to remain in the Community. You will request the examiner to perform any tests and complete any forms required by us or applicable law.

If you qualify for Medicaid and it is determined that an independent assessment by the Medicaid program or its contractor is required to determine whether you are eligible to receive Medicaid PCS services, you agree that the Medicaid agency or its contractors may assess your condition to determine if you qualify for the Medicaid PCS program. You agree to undergo an examination as required by the Medicaid program to receive such services as long as you are Medicaid eligible. Should the Medicaid program determine that you are not eligible to receive PCS services, the Community will conduct a health assessment as specified above to determine whether or not you meet the criteria established for continued admission as set forth in §131 D-2 of the North Carolina General Statutes in Chapter 13 Subchapter 13F and Chapter 13, Subchapter F Title 10A of the North Carolina Administrative Code.

- E. HEALTH CARE PROVIDER NOTIFICATION.** You authorize us to contact your legal representative/family, health care providers, and/or other persons listed in your records (1) if it is necessary in our judgment to advise them of your situation; (2) to arrange for required health care services and other assistance; or (3) in case of an emergency.

If your designated health care providers are unavailable, you authorize us to arrange for the services of other health care providers. You agree we may provide such persons with copies of your records, including, but not limited to, resident records, advance directives, living will, and the names of persons empowered to make health care decisions.

- F. SUBSTITUTE DECISION MAKERS/ADVANCE DIRECTIVES.** You will provide us with accurate, complete and current information about yourself, substitute decision-makers and health care providers, including but not limited to addresses and phone numbers, and your health care status and needs. You will provide us with copies of any power of attorney, guardianship, living will, or conservator documents, or other legal documents relating to the making of health or financial decisions or decision-makers. You authorize us to rely on the instructions of such designees or appointees or on the instructions found within such documents. You further agree to immediately notify us of changes relating to the information stated above.

In the event of hospitalization, you understand that form FL-2 or a patient transfer form must be provided to the Community by the hospital prior to readmission.

It is strongly suggested that you have advance directives in place in the event you become incapacitated. If you do not have such advance directives in place, you understand that a court may name a guardian upon application of any interested party (including the Company). Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, any costs associated therein shall be paid by you and we may invoice you for such costs.

G. MOTORIZED VEHICLES AND CARTS. Individual motorized vehicles such as electric scooters, wheelchairs, or carts and similar vehicles may be used, subject to the following:

1. Your ability to walk is substantially limited due to a disability;
2. Your operation of the vehicle does not pose a threat to the health and safety of yourself or others;
3. The vehicle is operated at a low speed setting; and
4. You agree to abide by our safety guidelines for the use of motorized vehicles on the premises, which may be modified from time to time.

Reasonable accommodations will be made to the rules, policies and practices (upon a showing of necessity) so long as the requested accommodation does not constitute a threat to the health or safety of you, the other residents, our associates or visitors.

You agree to pay for all damages to others or to the Community, which are caused by you or your motorized vehicle and that we may invoice you for such costs. You further understand and agree that we may, at our sole discretion, prohibit your further use of an electric scooter or similar vehicle at any time.

H. EXAMINATION OF RECORDS. You acknowledge that we are licensed by the State of North Carolina as an Adult Care Home. You understand that regulatory officials having jurisdiction over the Community may inspect your records as part of an evaluation of the Community. You have the right to review and access your health care records in accordance with the requirements of applicable law.

I. RULE AND REGULATION COMPLIANCE. You understand that the Community has shared common areas, and you agree to honor all rules of courtesy and respect for others. You agree to abide by and conform to our rules, regulations, handbook, policies and procedures as they now exist and as amended from time-to-time. If you have a disability and need a reasonable accommodation (a change in our rules or policies to equally use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. You understand that failure to abide by such policies may result in your discharge from the Community.

J. GUESTS. You have the right to associate with your friends and family during reasonable hours. Because the Community is a licensed building, overnight guests are generally not permitted in a resident's room. Limited exceptions may be granted by the Executive Director based upon the circumstances.

You acknowledge and understand that your guests are subject to our rules and regulations, and if your guests become disruptive to the operations of the Community and/or are verbally or physically abusive to residents, our associates or others, we may request that they leave the Community until their behavior is under control or may restrict their visitation. Where circumstances warrant, we may exclude such individuals from the Community.

K. RELEASE OF INFORMATION. We will keep your health, medical, personal and other information that identifies you (collectively, "Resident Data") confidential in compliance with applicable law. You agree that we may use and disclose Resident Data for purposes of treatment, to provide to you services covered by this Agreement (collectively "Services"), to obtain payment for our Services, in connection with our operations, including training, care management and quality assessment and improvement, to coordinate with any third party providers you select, and as otherwise permitted by law.

III. RATES.

A. **COMMUNITY FEE.** We require a one-time non-refundable Community Fee in an amount indicated in Exhibit A to be paid at the time this Agreement is signed. The Community Fee does not excuse you from financial responsibility for any damage caused to your Suite beyond normal wear and tear upon move-out.

B. **MONTHLY SERVICE RATE.**

1. **Rate.** You agree to pay the Basic Service Rate and, if applicable, the Personal Service Rate as indicated in Exhibit A (together the “Monthly Service Rate”).

If you are Medicaid eligible and it is determined that you do not qualify for the Medicaid PCS program, you agree to pay the Personal Services Rate if applicable as indicated in Exhibit A.

2. **Refund.** In accordance with Section IV, we will refund a prorated share of the Monthly Service Rate if this Agreement is terminated before the end of a month:

- a. following thirty (30) days written notice;
- b. because you require care that is not offered by us; or
- c. by reason of death.

Refunds will be prorated (using 30.5 days to calculate the Daily Rate) from the later of the termination date or the date by which you have vacated and all of your belongings are removed from Community. Unless prohibited by law, you agree we may offset such refunds by any amount due under the terms of this Agreement.

C. **ABSENCES.**

1. **Notice of Absence.** Except for an emergency medical absence, if you will be absent from the Community for any period of time, you must inform us of your plans prior to leaving and sign the Sign In/Sign Out Book upon exiting and re-entering the Community. We assume no responsibility or liability for your welfare during times that you are away from the Community.

2. **Fees during Absence.** If you are absent from the Community for any reason, such as, for a hospitalization, vacation, temporary nursing home care or rehabilitation, the Residency Agreement will remain effective and you will be charged the full Monthly Service Rate. If you provide written notice of your intent to terminate the Agreement pursuant to Section IV, termination will be effective and charges will cease the later of the end of any applicable notice period or the removal of all of your personal belongings.

D. **SELECT & THERAPEUTIC SERVICES.** In addition to the Monthly Service Rate, you agree to pay the established charges for any Select Services or Therapeutic Services provided to you by us.

E. **PAYMENT.** We will issue a monthly statement before the first day of the month itemizing the Monthly Service Rate for the upcoming month and, if any, charges incurred for Select Services and Therapeutic Services provided during the prior month. Payment for all charges shown on the statement is due on the first (1st) calendar day of each month. The first payment of the Monthly Service Rate is due prior to taking occupancy. If you move in after the first of the month, your first Monthly Service Rate will be prorated (using 30.5 days to calculate the Daily Rate).

We will charge a \$250.00 late fee if we have not received all fees when due. We will also charge a \$50.00 returned payment fee for each check or automatic withdrawal that is returned or denied for any reason. After two such occurrences, you agree to pay all amounts due by cashier's check or such other method specified by us. You also agree to pay interest on all outstanding amounts based upon the lesser of 1.5% per month or the highest rate permitted by law.

- F. **RATE CHANGES.** We will provide thirty (30) days written notice of any change in the rates or pricing method for Basic Services, Personal Services, Select Services and Therapeutic Services. We may offer or require a change in the Personal Service Plan when we determine additional services are requested or required. **The new Personal Service Rate resulting from a change in your Personal Service Plan is effective immediately after written notice is given.**

IV. TERM AND TERMINATION.

- A. **TERM.** This Agreement begins on the date set forth above and continues until terminated as provided below.
- B. **TERMINATION BY RESIDENT.** You may terminate this Agreement upon fourteen (14) days written notice to us. Termination occurs on the later of the end of the notice period or upon the removal of all of your personal belongings.
- C. **TERMINATION BY THE COMPANY.** We may terminate this Agreement, upon providing you thirty (30) days written notice, for any of the following events, as determined by us:
1. The discharge is necessary for your welfare and your needs cannot be met in the Community as documented by your physician, physician assistant or nurse practitioner.
 2. Your health has improved sufficiently so you no longer need the services provided by the Community as documented by your physician, physician assistant or nurse practitioner.
 3. The safety of other individuals in the Community is endangered.
 4. The health of other individuals in the Community is endangered as documented by a physician, physician assistant or nurse practitioner.
 5. Failure to pay the cost of services and accommodations by the payment due date after receiving written notice of warning of discharge for failure to pay.
 6. The discharge or transfer is mandated by state law.

We may, upon written notice to you, immediately terminate this Agreement, and transfer or discharge you for emergency medical or welfare reasons that would endanger the health and safety of yourself or others. If the emergency requires your immediate transfer, we will notify your legal representative as soon as practical. We will provide a written explanation for termination with less than thirty (30) days' notice.

- D. **TERMINATION BY EITHER PARTY.** Either party may terminate this Agreement immediately upon written notice in the event of your death or if you must be relocated due to your health. The Community may request a physician to certify in writing that based upon his/her examination, you must be relocated to facility which offers a higher level of care.

In the event of your death, your estate will be charged the Monthly Service Rate through the later of the seventh (7th) day after your death or the day on which all of your belongings are removed from the Community. If you must relocate due to your need for a higher level of care, you will be charged the Monthly Service Rate through the later of fourteen (14) days after the date of your written notice of termination or the day on which all of your belongings are removed from the Community.

- E. SERVICES PENDING TERMINATION.** You acknowledge and agree that, pending termination of the Agreement due to requiring services or staff not available in the Community, we may arrange for the provision of one-on-one care and you will pay for such care if we determine that such care is needed to protect your health or safety or the health or safety of others.
- F. COMMUNITY CEASES TO OPERATE.** If the Community's license is revoked or the Community otherwise ceases to operate, this Agreement shall terminate upon written notice from the Community on the date as stated in the notice. Any advance payment for services not received shall be refunded to the Resident.
- G. RESPONSIBILITIES UPON TERMINATION.** You will vacate premises, removing all belongings on or before the effective date of termination. If you fail to remove your belongings by the effective date of termination, you understand and agree that we may continue to charge you for the Basic Service Rate of your Suite, or have your belongings placed in storage at your cost. You further agree that we may donate any unclaimed property after forty-five (45) days. You will provide written notice of a forwarding address where you can be reached and receive mail. Termination will not release you or us from any liability or obligation to the other party under the terms of this Agreement.

V. AGREEMENT TO ARBITRATE.

Should any of sub-sections A & B provided below, or any part thereof, be deemed void or invalid, the validity of the remaining sub-sections, or parts thereof, will not be affected.

A. ARBITRATION PROCEEDINGS.

1. Any and all claims or controversies arising out of, or in **any** way relating to, this Agreement or any of your stays at the Community, excluding any action for involuntary transfer or discharge or eviction, and including disputes regarding interpretation, scope, enforceability, unconscionability, waiver, preemption and/or violability of this Agreement, whether arising out of State or Federal law, whether existing or arising in the future, whether for statutory, compensatory or punitive damages and whether sounding in breach of contract, tort or breach of statutory duties, irrespective of the basis for the duty or the legal theories upon which the claim is asserted, shall be submitted to binding arbitration, as provided below, and shall not be filed in a court of law. **The parties to this Agreement further understand that a judge and/or jury will not decide their case.**
2. The parties hereby expressly agree that this Arbitration Provision, the Residency Agreement and the Resident's stays at the Community substantially involve interstate commerce, and stipulate that the Federal Arbitration Act ("FAA") shall exclusively apply to the interpretation and enforcement of this Agreement, and shall preempt any inconsistent State law and shall not be reverse preempted by the McCarran-Ferguson Act; United States Code Title 15, Chapter 20, or other law. Any party who demands arbitration must do so for all claims or controversies that are known, or reasonably

should have been known, by the date of the demand for arbitration, and if learned of during the course of the arbitration proceeding shall amend the claims or controversies to reflect the same. All current damages and reasonably foreseeable damages arising out of such claims or controversies shall also be incorporated into the initial demand or amendment thereto.

3. A demand for Arbitration by you, your legal representative, a person or organization acting on your behalf with your consent, or the personal representative of your estate (collectively "Resident Party") shall be made in writing and submitted to Timothy Cesar, Brookdale Senior Living Inc., 6737 W. Washington St. #2300, Milwaukee, WI 53214, via certified mail, return receipt requested. Demand for Arbitration by us shall be made in writing and submitted to you or your agent, representative, successor or assign and/or your legal representative via certified mail, return receipt requested.
4. The arbitration proceedings shall take place in the county in which the Community is located, unless agreed to otherwise by mutual consent of the parties.
5. The arbitration panel shall be composed of one (1) arbitrator. Subject to the requirements of section A.6, the parties shall agree upon an arbitrator that must be a member of the North Carolina Bar with at least ten (10) years of experience as an attorney. If the parties cannot reach an agreement on an arbitrator within twenty (20) days of receipt of the Demand for Arbitration, then each party will select an arbitrator. These arbitrators will act only for the purpose of appointing a sole arbitrator to hear the case, subject to the criteria above. If either party fails to select their arbitrator within the (20) days mentioned above, they effectively forfeit their right to choose an arbitrator.
6. The arbitrator shall be unbiased of all parties, witnesses, and legal counsel. No past or present officer, director, affiliate, subsidiary, or employee of a party, witness, or legal counsel may serve as an arbitrator in the proceeding.
7. Discovery in the arbitration proceeding shall be governed by the North Carolina Rules of Civil Procedure. However, discovery may be modified by agreement of the parties.
8. The arbitrator shall designate a time and place within the county in which the Community is located, for the arbitration hearing and shall provide thirty (30) days' notice to the parties of the arbitration hearing.
9. The arbitrator shall apply the North Carolina Rules of Evidence and North Carolina Rules of Civil Procedure in the arbitration proceeding except where otherwise stated in this Agreement. Also, the arbitrator shall apply, and the arbitration decision shall be consistent with, North Carolina law except as otherwise stated in this Arbitration Provision.
10. The arbitration decision should be signed by the arbitrator and delivered to the parties and their counsel within thirty (30) days following the conclusion of the arbitration. The decision shall set forth in detail the arbitrator's findings of fact and conclusions of law.
11. The arbitrator's decision shall be final and binding and such decision may only be vacated or modified as allowed by the Federal Arbitration Act.
12. The arbitrator's fees and costs associated with the arbitration shall be divided equally among the parties. The parties shall bear their own attorneys' fees and costs and hereby expressly waive any right to recover attorney fees or costs, actual or statutory.
13. The arbitration proceeding shall remain confidential in all respects, including the Demand for Arbitration, all arbitration filings, deposition transcripts, documents

produced or obtained in discovery, or other material provided by and exchanged between the parties and the arbitrator's findings of fact and conclusions of law. Following receipt of the arbitrator's decision, each party agrees to return to the producing party within thirty (30) days the original and all copies of documents exchanged in discovery and at the arbitration hearing, except those documents required to be retained by counsel pursuant to law. Further, the parties to the arbitration also agree not to discuss the amount of the arbitration award or any settlement, the names of the parties, or name/location of the Community except as required by law.

14. This Arbitration Provision binds third parties not signatories to this Arbitration Provision, including any spouse, children, heir, representatives, agents, executors, administrators, successors, family members, or other persons claiming through the Resident, or persons claiming through the Resident's estate, whether such third parties make a claim in a representative capacity or in a personal capacity. Any claims or grievances against the Community or the Community's corporate parent, subsidiaries, affiliates, employees, officers or directors shall also be subject to and resolved in accordance with this Arbitration Provision.

15. The terms of this Arbitration Provision are severable.

16. The Arbitration Provision shall survive your death.

B. BENEFITS OF ARBITRATION. The parties' decision to select arbitration is supported by the potential cost-effectiveness and time-savings offered by selecting arbitration, which may avoid the expense and delay of judicial resolution in the court system. The parties' decision to select arbitration is supported by the potential benefit of preserving the availability, viability, and insurability of a long term care company for the elderly and disabled in North Carolina, by limiting such company's exposure to liability. With this Agreement, we are better able to offer our services and accommodations at a rate that is more affordable to you. In terms of the potential time-savings offered by selecting arbitration, the parties recognize that selecting a quick method of resolution is potentially to a resident's advantage.

You and/or your legal representative understand that other long term care companies' Agreements may not contain an arbitration provision. The parties agree that the reasons stated above are proper consideration for the acceptance of the Arbitration Provision. **The undersigned acknowledges that he or she has been encouraged to discuss this Agreement with an attorney.**

The parties to this Agreement further understand that a judge and/or a jury will not decide their case.

VI. MISCELLANEOUS.

A. WAIVER OF TRIAL BY JURY. If a court determines that the Arbitration Provision provided above is invalid, the parties express their desire to waive a jury trial and resolve any claims in the appropriate court solely before a judge.

B. NON-DISCRIMINATION. We operate on a non-discriminatory basis and afford equal treatment and access to services to eligible persons regardless of race, religion, color, national origin, sex, disability or any other category protected by applicable law. The Company and the Community agree to comply with State regulations requiring the completion of DSS Form-1464 as an assurance of compliance with Title VI of the Civil

Rights Act. The Company and the Community acknowledge that failure to comply with this regulation will jeopardize the Company's ability to receive supportive services from the County Department of Social Services and State-County Special Assistance for Adults.

C. RISK AGREEMENT. You are responsible for your personal, financial and health care decisions. You are also responsible for maintaining health, personal property, liability, automobile (if applicable), and other insurance coverages in adequate amounts. You agree to obtain insurance in an amount adequate to cover your personal property and your general liability. You acknowledge that we do not insure your person or property. You understand and agree that:

1. We may encourage you to participate in community, leisure, and social activities and to maintain an appropriate level of independence in activities of daily living, as well as your personal and financial affairs;
2. Independent activities, responsibility for personal, financial, and health care decisions, and lifestyle and care preferences may involve risks of personal injury and/or property damage or loss;
3. Throughout the Community, there may be public balconies and/or a balcony in your Apartment. If you choose to use such balcony, you do so at your own risk. We are not responsible for any injury that may result from use of a balcony. We are also not responsible for damage or loss of any property used or placed on a balcony;
4. The standard of service for an assisted living community does not include one-on-one care, assistance or supervision, e.g., one resident assistant for each Resident, or immediate response to non-emergent needs. There may be short and long periods of time in which you will be left alone, unsupervised such as while watching television, listening to music, reading, and sleeping at night;
5. We make no representations or guarantees that our associates can prevent falls. We do not represent or guarantee that your health condition will not change or deteriorate;
6. We make no representations or guarantees that our associates can prevent the onset of skin break down or the worsening of existing skin break down;
7. Our services may not meet all of your personal, social, or health care needs and we will attempt to assist you in arranging for such services which are not included in this Agreement;
8. Many residents suffer from cognitive impairment, including Alzheimer's disease and dementia. This condition can cause unexpected behavior such as wandering, forgetfulness, agitation towards others and confusion. We make no representations or guarantees that we can predict the behavior of our residents. Therefore, we also make no representations or guarantees that we can always prevent a resident from wandering or attempting to wander from the Community, entering into a private area, misplacing or losing items or engaging in physical contact with another resident;
9. We make no representations or guarantees that we can prevent the loss of personal items, including but not limited to clothing, jewelry, dentures, hearing aides or other medical equipment. We will not be responsible for the loss of such items. We make no representations or guarantees that we can prevent theft or other criminal acts perpetrated by another resident or person; therefore, we recommend that valuables such as jewelry and large sums of money, not be kept at the Community. If you choose to bring in

valuables, you do so at your own risk and we will not be held responsible for any theft or loss of such items;

10. Due to state regulations and fire code, we may not lock our exterior doors against exiting. Therefore, we cannot guarantee that a resident will not wander from the Community. Some buildings have exterior doors that are alarmed with a delayed egress feature and our systems are designed to alert our associates to respond and assist a resident if they wander from the building.

You understand and agree to assume the risks inherent in this Agreement. You agree to hold us, our associates and agents harmless for any damages, injury or other loss resulting from: (1) reasonable acts or omissions made in good faith; (2) action by a third party, fire, water, theft or the elements; or (3) loss of personal property.

- D. PETS.** The Community's pet policy is described in the Addendum to the Residency Agreement.
- E. SMOKING.** Except as otherwise set forth in the Addendum to the Residency Agreement, smoking is not permitted in any part of the Community.
- F. WEAPONS.** Weapons, as defined by us, are not allowed in the Community or on Community property. This includes but is not limited to firearms, explosive materials, ammunition, and collectible or antique weapons.
- G. NO TENANCY INTEREST.** You have none of the rights of a tenant under this Agreement, subject to applicable state law.
- H. ASSIGNMENT.** This Agreement is not assignable without our prior written consent. Our rights and obligations may be assigned to any person or entity which will be responsible to ensure our obligations under this Agreement are satisfied in full from the date of notification. We may engage another person or entity to perform any or all of the services under this Agreement.
- I. AMENDMENTS.** This Agreement and any written amendments constitute the entire agreement between the parties and supersede all prior and contemporaneous discussions, representations, correspondence, and agreements whether oral or written. Except for our right to modify fees, rates and charges, amend services provided and establish and modify reasonable operating procedures and rules for the general welfare and safety of the residents, this Agreement may be amended only in writing signed by both parties.
- J. SEVERANCE.** Should any part of this Agreement be invalid, the validity of the other parts of this Agreement will not be affected.
- K. FINANCIAL RESPONSIBILITY.** You have designated a Guarantor, who has agreed to the terms of the attached Statement of Financial Responsibility.
- L. SUBORDINATION.** This Agreement and the parties' rights hereunder are subordinate to any lease, mortgage or deed of trust placed upon the Community, but you may remain in your Suite so long as you comply with the provision of this Agreement.
- M. REPRESENTATION AND WARRANTY.** By executing this Agreement you represent and warrant that all representations made by you or on your behalf, whether written or verbal, with respect to your application for admission to the Community were true when made. You understand that we rely upon the truthfulness of this information in making our decision to enter into this Agreement. Your application forms, including personal data forms, statement of financial condition (if applicable), health history and medical reports

submitted by you or on your behalf to us, are incorporated by reference into this Agreement and made an express part of it. You understand and agree that any material misrepresentation or omission made by you or on your behalf in connection with these documents shall make this Agreement voidable at our option, to the extent permitted by law.

- N. CHOICE.** You have a choice of providers for private sitters, therapy, rehabilitation, home health, hospice and other health care services. As part of the complement of services offered by the Company and its affiliates, therapy, rehabilitation, home health, hospice or other services may be available at the Community through Company affiliates. If you require such services, Community associates will assist you in obtaining such services from Company affiliates or another service provider of your choice.
- O. OBLIGATORY INFORMATION.** You agree to provide accurate, complete and current information about yourself and about any emergency contact, including but not limited to addresses, phone numbers, and email address. You understand that you must promptly notify us of changes to the information stated above. If you do not have advance directives in place, you understand that a court may appoint a guardian to make decisions on your behalf if you are no longer able to do so. Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, you agree to pay any costs associated therein.
- P. ASSIGNMENT OF BENEFITS.** To the extent that the Community participates in a government payor program, long term care insurance program or other insurance program (“Third Party Payor”) of which you are a beneficiary, you authorize us to disclose any medical or administrative information and request payment. You certify that the information given in applying for payment from such Third Party Payor is correct. You authorize release of all medical and administrative records required to act on this request and request that payment of authorized benefits be made on your behalf. You authorize us to disclose any medical or administrative information required in the processing of applications for financial coverage for services rendered. To the extent permitted by your Third Party Payor, you authorize direct payment of all benefits to us.
- Q. COUNTERPARTS.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.
- R. NOTICES.** Notices will be written and given by personal delivery or mailing by regular mail, postage pre-paid to the following or such other persons or places as the parties may notify each other. Notices shall be deemed given based upon the date personally delivered or upon the date postmarked.

Company:
Executive Director at Community
(At the Community)

Resident:
(At the Community)

Legal Representative/Responsible Party:
(as noted below)

We believe it is important to disclose all services and fees to the best of our ability and in accordance with the law. We recommend that you consult with legal counsel to ensure understanding of this Agreement before signing.

BY THEIR SIGNATURES, the parties or their representatives have executed this Agreement.

Resident/Legal Representative (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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For Company	Title	Date
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LEGAL REPRESENTATIVE/RESPONSIBLE PARTY ADDRESS:

Name: Test Test

Address: Test Test, NC 54656

Phone Nos.: 464-654-6546

Email:

OTHER RELATED MATERIALS:

1. Resident Bill of Rights
2. Community Handbook
3. Emergency Evacuation Plan
4. Admissions Package
5. Medical Records Release (if additional permission is required under state law or necessary to address a use or disclosure not covered by Section I(K))
6. Personal Service Assessment
7. Personalized Service Plan

ATTACHMENTS INCLUDED

Addendum for Community-Specific Basic Services and Operating Policies

Exhibit A - Schedule of Services and Rates

Exhibit B - Statement of Financial Responsibility

Exhibit C - Pharmacy Services Agreement

Exhibit D – Authorization to Use and Disclose Information

ADDITIONAL EXHIBITS TO ATTACH AS PART OF THE AGREEMENT:

- X. Select Services List
- Y. Therapeutic Services List
- Z. Assessment Price Schedule

**EXHIBIT A
SCHEDULE OF SERVICES AND RATES**

Resident Test
Suite Type and Number 106

COMMUNITY FEE (Prior to Move-in) \$1,000.00
SPECIAL ASSISTANCE/MEDICAID \$

If your Special Assistance/Medicaid application is denied, your Basic Service Rate will adjust to the then current Basic Service Rate for such Suite. In addition, you will be charged a Personal Service Rate in accordance with the terms and provisions of the Residency Agreement.

BASIC SERVICE RATE \$5,000.00
(Check below if applicable)

The Basic Service Rate above is the Basic Service Rate for a Companion Suite. If the Companion Suite converts to single occupancy, the Basic Service Rate will adjust to the then current single occupancy Basic Service Rate for such Suite.

PERSONAL SERVICE RATE \$
(The current Personal Service Price Schedule is attached as Exhibit Z)
(See attached Personal Service Rate Report)

MONTHLY SERVICE RATE \$5,000.00
(Add Basic Service Rate and Personal Service Rate)

SELECT SERVICES AND THERAPEUTIC SERVICES \$0.00*
(The Select Service List and Therapeutic Services List are attached as Exhibits X and Y)
*Amount varies based upon monthly usage.

I acknowledge receipt of Exhibits X, Y and Z and agree to the above Schedule of Services and Rates to commence as of December 5, 2016. I understand and agree that the Company has the right to change these rates and/or change the services provided in accordance with the provisions of the Residency Agreement.

Resident/Legal Representative (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
---	------------	------

For Company	Title	Date
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EXHIBIT B
STATEMENT OF FINANCIAL RESPONSIBILITY

("Guarantor" or "you") and ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the "Company," "us," "we" or "our"), agree as follows:

The Resident named in the attached Residency Agreement desires to live at the Community and we are willing to enter into the Residency Agreement if the Resident has an individual who is willing to fulfill the conditions of this Statement of Financial Responsibility; and

In consideration for our accepting the Resident into the Community, you agree to fulfill the provisions of this Statement of Financial Responsibility, if and as necessary.

Therefore, in consideration of the mutual covenants contained in this Statement of Financial Responsibility, the parties agree as follows:

I. PERSONAL ASSISTANCE. In the event the condition of the Resident requires such assistance, and upon our request, you will assist Resident or legally responsible person, as necessary by:

- A. Participating with our associates in evaluating Resident's needs and in planning and implementing an appropriate plan for Resident's care;
- B. Maintaining Resident's welfare and fulfilling Resident's obligations under the Residency Agreement;
- C. Relocating Resident following termination and removing the Resident's property;
- D. Transferring Resident to a hospital, nursing home, or other facility in the event that Resident requires care we do not offer;
- E. Making necessary arrangements for funeral services and burial in the event of death.

II. FINANCIAL RESPONSIBILITY. If Resident fails to make payments due to us under the Residency Agreement, you agree to pay us such amounts within thirty (30) days of receiving written notice of nonpayment.

III. REVIEW OF RESIDENCY AGREEMENT. You acknowledge that you have received and reviewed a copy of the Residency Agreement, and have had an opportunity to ask questions.

BY THEIR SIGNATURES, the parties have executed this Agreement to be effective as of December 5, 2016.

Guarantor (Should be signed by someone who is not the Resident)	Social Security No.	D.L. No.	Date
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For the Company	Title	Date
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SEND NOTICES TO GUARANTOR AT:

Address: _____ , _____

Home and Work Phone Nos.: _____

Cell Phone No.: _____

Email Address: _____

Exhibit C
Pharmacy Services Agreement

We work closely with pharmacy providers to meet the needs of our residents. Preferred Pharmacy providers are chosen based upon their ability to provide services to our residents to enhance their health and wellness. Important services include:

- Medication packaging that meets our safety standards
- Ongoing medication regimen reviews to include potential negative drug or allergic interactions
- Recommending therapeutic substitutions and offering generic substitutions when appropriate
- Alerts for Physicians and our Associates when there is duplication of prescriptions
- Accept most insurance plans and will bill you directly*
- Routine (daily) and emergency delivery 24-hours a day, 7 days a week.

Pharmerica E is our Preferred Provider for pharmacy services (“Preferred Provider”). Our Preferred Provider strives to have competitive prices and allows us to use one distribution system within our community.

Participation with our community’s Preferred Provider is strongly encouraged. Should you choose not to use the community’s pharmacy provider, you may incur fees as set forth in Exhibit X:

- Non Preferred Pharmacy Fee (additional administrative oversight required)
- Non-Standard Packaged Medications Fee (additional administrative oversight required) if the pharmacy is unable to provide medications in a unit dose packaging system

You also assume responsibility for the following:

- Medications packaged in a unit dose packaging system to meet our medication management standards
- Ordering, re-ordering and pick up of medications

If medications are not delivered within two days prior to their depletion, the community will reorder medications from the Preferred Provider.

MY SIGNATURE BELOW INDICATES THAT I HAVE READ, UNDERSTAND AND AGREE TO ABIDE BY THE TERMS OF THIS PHARMACY SERVICE AGREEMENT.

Resident/Legal Representative (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
---	------------	------

*Some prescribed medications may not be covered by your insurance or Med D plan. Payment of these medication charges is the responsibility of the resident.



Exhibit D

Authorization to Use and Disclose Information

In our efforts to enrich the lives of those we serve, ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence would like the opportunity to share your information with its affiliates and parent company, Brookdale Senior Living Inc. ("Brookdale"). These companies offer health care services, as well as various retirement options, that may benefit you. Brookdale has also developed associations with other companies to offer individuals and their families additional benefits like discounts, preferred access and other value-added services. For your privacy, we need your consent before sharing this information. If you would like to learn about these services and how they can assist you, please sign below.

By signing below, you agree to allow ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence to (a) provide your name, address, email, phone number and other contact information to Brookdale subsidiaries and third-party associations so they may reach out to you and (b) authorize Brookdale subsidiaries and third-party associations to send information about benefits to you and those involved in your care. Brookdale, its affiliates and its associations will not sell your information to any third party.

Uses and disclosures covered by this authorization may be made electronically, orally or on paper, such as through the mail. Signing this form is optional. Your treatment or payment for care will not be conditioned on whether you sign this form. Brookdale or its affiliates may receive remuneration in connection with your agreement to use and disclose your information as described in this form.

This authorization will remain in effect until one year after you (a) move out of a Brookdale affiliated community, (b) are discharged from receiving services from a Brookdale affiliated provider, or (c) the date you sign this authorization, whichever is applicable and the latter. You have the right to revoke this authorization at any time by notifying Brookdale in writing at 6737 W. Washington Street, Suite 2300, Milwaukee, WI 53214; Attn: Privacy Officer. Your revocation of this authorization will not be effective to the extent we have already relied upon this form (by using or disclosing information).

After your information is disclosed, it may not be governed by the federal HIPAA privacy rules and may be further disclosed by the recipient. You have the right to receive a copy of this form and to request to review and copy your information disclosed through this form.

_____/_____/_____ Test
Signature of Individual or Legal Representative Date Individual's Name

If signed by the Individual's Legal Representative, complete the following:

Printed Name of Legal Representative: _____
Relationship to Individual and Authority of Legal Representative (e.g., health care power of attorney, guardian, other statutory authorization): _____

ADDENDUM TO THE RESIDENCY AGREEMENT BASIC SERVICES

THIS ADDENDUM TO THE RESIDENCY AGREEMENT (the “Addendum”), dated December 5, 2016, is made between Test (“Resident,” “your” or “you”) and ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (“Company,” “we” or “us”) and modifies and is made part of the Residency Agreement dated as of the date hereof (“Residency Agreement”).

1. **Utility Service.** You are responsible for paying for any utilities which are noted below as “Not Included” in the Basic Service Rate.

Utility	Included	Not Included
Gas and Electric	X	
Heat	X	
Air Conditioning	X	
Water	X	
Basic Cable/Satellite		X
Premium Cable Channels		X
Telephone		X

2. **Dining Services.** We will provide five (5) meals less than there are days in each month (lunch and/or dinner). Meals and meal delivery are available for an additional charge as listed on Exhibit X. The meals served are not designed for any specific diet or dietary restrictions.
3. **Housekeeping Services.** We will provide light housekeeping once per week.
4. **Laundry and Linen Service.** Personal laundry service and any additional laundry service is available for an additional charge as listed on Exhibit X.
5. **Parking.** You may have access to an unreserved parking space on a first-come, first-serve basis. Subject to availability, you may rent a garage parking space for an additional fee. Parking is available provided that you (a) own a car that you wish to park, (b) maintain a current valid driver's license, registration and insurance, and (c) agree to execute a Parking Rider, which is available from the Executive Director.
6. **Transportation.** We will make available scheduled transportation to neighboring shopping centers, medical facilities and religious facilities, to a maximum distance of seven (7) miles from the community. The transportation schedule is available upon request. Transportation schedules are subject to modification by us in our sole discretion. To the extent that transportation is provided to other locations, including certain group trips, we may charge you an additional fee if you choose to participate.

All other transportation costs, including taxi and ambulance charges, are your responsibility.

7. **Pets.**

8. **Smoking.**

9. **Amendment.** Except as otherwise amended by this Addendum, the terms and provisions of the Residency Agreement shall remain in full force and effect. Any term not otherwise defined in this Addendum shall have the meaning ascribed to such term in the Residency Agreement.

BY THEIR SIGNATURES, the parties or their representatives have executed this Addendum.

Resident/Legal Representative	Date
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For Company	Title	Date
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Exhibit X - Select Services List

Service	Per Occurrence Price	Monthly Recurring Price
Dining - Guest Meal - Dinner	\$14	
Dining - Guest Meals - Additional	\$6	
Dining - Guest Meals - Lunch	\$8	
Dining - Guest Meals - Sunday buffet/Special Events (charge may vary per event)	\$17	
Dining - Room/Tray Service - per meal charge	\$4	---
Incontinence Products - Personal Solutions	See price schedule for prices & options	
Laundry - Additional (Included in Basic Service Rate: Once per week for personal and/or linens)	N/A	N/A
Medication - Preparation of Non-Standard Packaged Medications (Includes cost of Non-Preferred Pharmacy)	N/A	N/A
Medication - Use of Non-Preferred Pharmacy	N/A	N/A
Transportation	\$14 per trip	---
Cable Television (If not included in the Basic Service Rate)		\$17
Cable Television (If not included in the Basic Service Rate)		\$39
Cable Television (If not included in the Basic Service Rate)		
Companion - Appointment & Shopping (Does not include transportation)	\$23 per hour	N/A
Housekeeping - Additional (Included in Basic Service Fee: Once per week)		
Housekeeping - Additional (Included in Basic Service Fee: Once per week)	----	----
Housekeeping - Additional (Included in Basic Service Fee: Once per week)	N/A	N/A
Other:		

Exhibit Y - Therapeutic Services List

Service	Per Occurrence Price	Monthly Recurring Price
Dressing & Grooming - Short-Term Cast, Splint or Brace Care	\$19 per day	N/A
Dressing & Grooming - Prescription Compression Stockings	\$6	\$287
Medication - Prescription Injectable Medication (e.g. B12; not insulin)	\$17	N/A
Showering & Bathing - Whirlpool	\$31	N/A
Skin & Wound Care - Dressing Change for 1 Stage I or II Wound or Closed Surgical Wound/Stasis Ulcer	N/A	\$1,035
Skin & Wound Care - Dressing Change for 2 or more Stage I or II Wound or Closed Surgical Wound/Stasis Ulcer	N/A	\$2,066
Skin & Wound Care - Dressing Change for Skin Tear	\$6	N/A
Skin & Wound Care -Skin Tear		

Services on Exhibits X and Y are in addition to the Basic Service Rate or Personal Service Rate. Depending on licensure requirements and available staffing, not all services listed may be available at the community. Contact the Executive Director to verify if a listed service is available or for more information about other services that may be available.

Exhibit Y - Therapeutic Services List

Service	Per Occurrence Price	Monthly Recurring Price
Nutrition - Physician Ordered Nutritional Monitoring	\$25 per day	N/A
T.B. Skin Test	\$17 per injection	N/A
Telephonic Pacemaker Testing - 1/month	N/A	\$26
Other:		

Services on Exhibits X and Y are in addition to the Basic Service Rate or Personal Service Rate.
Depending on licensure requirements and available staffing, not all services listed may be available at the community.
Contact the Executive Director to verify if a listed service is available or for more information about other services that may be available.

ARCLP - CHARLOTTE, LLC
d/b/a BROOKDALE CARRIAGE
CLUB PROVIDENCE

Compilation of Financial Forecasts

Five Years Ending
December 31, 2023



**ARCLP – CHARLOTTE, LLC d/b/a
BROOKDALE CARRIAGE CLUB PROVIDENCE**

Five Years Ending December 31, 2023

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ACCOUNTANTS' COMPILATION REPORT

The Board of Directors ARCLP – Charlotte, LLC:

Management is responsible for the accompanying forecasts of ARCLP – Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company”), which comprises the forecasted balance sheets, statements of income and changes in members’ deficit, and cash flows as of and for each of the five years ending December 31, 2019 through 2023, and the related summaries of significant assumptions and accounting policies in accordance with guidelines for the presentation of forecasts established by the American Institute of Certified Public Accountants (AICPA). We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not examine or review the forecasts nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these forecasts. The accompanying forecasts were prepared for use by the Company for inclusion in its annual disclosure statement for the North Carolina Department of Insurance. All other information that may be included with the forecasts identified in the preceding paragraph has not been subjected to an examination, review, compilation, or preparation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

The forecasted results may not be achieved, as there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecasts and this report are intended solely for the information and use of the Company and the North Carolina Department of Insurance and are not intended to be and should not be used by anyone other than these specified parties.

LBMC, PC

Brentwood, Tennessee
May 30, 2019

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Balance Sheets
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Assets					
Current assets:					
Cash, restricted	\$ 146	1,002	1,068	1,075	1,063
Accounts receivable	484	494	504	515	526
Other current assets	252	254	256	258	261
Total current assets	882	1,750	1,828	1,848	1,850
Property and equipment:					
Land and improvements	10,890	10,890	10,890	10,890	10,890
Building and improvements	90,539	90,878	91,231	91,599	91,981
Furniture and equipment	13,238	13,421	13,611	13,808	14,014
Construction in progress	180	180	180	180	180
Total property and equipment	114,847	115,369	115,912	116,477	117,065
Less accumulated depreciation and amortization	(40,268)	(43,882)	(47,523)	(51,194)	(54,895)
Net property and equipment	74,579	71,487	68,389	65,283	62,170
Operating reserve fund	5,130	5,186	5,256	5,345	5,442
Total Assets	\$ 80,591	78,423	75,473	72,476	69,462
Liabilities and Members' Deficit					
Current liabilities:					
Current portion of long-term debt	\$ 1,759	1,811	1,859	1,909	26,912
Accounts payable	373	384	395	407	419
Accrued expenses	794	856	920	986	1,052
Tenant deposits and other restricted liabilities	152	160	168	176	185
Other current liability	473	473	473	473	473
Total current liabilities	3,551	3,684	3,815	3,951	29,041
Long-term debt	91,530	89,777	87,975	86,123	59,269
Deferred revenue - refundable	-	-	-	-	-
Deferred revenue - non-refundable	-	-	-	-	-
Total liabilities	95,081	93,461	91,790	90,074	88,310
Members' deficit, unrestricted	(14,490)	(15,038)	(16,317)	(17,598)	(18,848)
Members' deficit, restricted	-	-	-	-	-
Total Liabilities and Members' Deficit	\$ 80,591	78,423	75,473	72,476	69,462

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Statements of Income and Changes in Members' Deficit
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Revenues:					
Independent living	\$ 12,773	13,039	13,524	13,986	14,460
Assisted living	4,346	4,421	4,641	4,849	5,067
Memory enhancement	2,646	2,705	2,884	3,091	3,277
Nursing care	3,158	3,168	3,242	3,328	3,415
Second party rents	389	411	427	443	460
Other income	2,420	2,364	2,463	2,573	2,690
Total revenues	25,732	26,108	27,181	28,270	29,369
Expenses:					
Ancillary expenses	1,682	1,730	1,782	1,840	1,900
General and administration	2,796	2,850	2,914	2,980	3,049
Nursing	1,355	1,381	1,416	1,456	1,497
Memory enhancement	739	753	773	796	820
Assisted living	646	658	675	695	715
Plant operations and maintenance	1,226	1,250	1,279	1,311	1,342
Utilities	749	773	790	805	820
Housekeeping and laundry	460	469	481	495	509
Resident services	596	607	622	639	656
Food service	2,450	2,490	2,554	2,626	2,694
Marketing	662	674	691	708	726
General insurance	260	267	273	278	284
Workers' compensation	149	153	156	159	163
Property taxes	571	588	600	612	624
Depreciation and amortization	3,645	3,672	3,699	3,728	3,759
Interest expense	4,454	4,341	4,205	4,123	4,061
Total expenses	22,440	22,656	22,910	23,251	23,619
Net income	\$ 3,292	3,452	4,271	5,019	5,750
Members' Deficit:					
Beginning of year	\$ (17,782)	(14,490)	(15,038)	(16,317)	(17,598)
Net income	3,292	3,452	4,271	5,019	5,750
Distributions to members	-	(4,000)	(5,550)	(6,300)	(7,000)
End of year	\$ (14,490)	(15,038)	(16,317)	(17,598)	(18,848)

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

ARCLP - Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Forecasted Statements of Cash Flows
For the Years Ending December 31,
(in Thousands of Dollars)

	2019	2020	2021	2022	2023
Cash flows from operating activities:					
Net income	\$ 3,292	3,452	4,271	5,019	5,750
Adjustments to reconcile net income to net cash provided					
by operating activities:					
Depreciation and amortization	3,587	3,614	3,642	3,671	3,701
Loan fee amortization	57	58	57	58	57
Changes in:					
Accounts receivable	(9)	(10)	(10)	(11)	(11)
Other current assets	(2)	(2)	(2)	(2)	(2)
Accounts payable	11	11	11	12	12
Accrued expenses	61	62	64	65	67
Tenant deposits and other restricted liabilities	2	8	8	9	9
Total adjustments	3,707	3,741	3,770	3,802	3,833
Net cash provided by operating activities	6,999	7,193	8,041	8,821	9,583
Cash flows from investing activities:					
Deposits to operating reserve fund	(637)	(56)	(70)	(90)	(97)
Purchases of property and equipment	(4,986)	(522)	(544)	(565)	(588)
Net cash used in investing activities	(5,623)	(578)	(614)	(655)	(685)
Cash flows from financing activities:					
Payment of long term debt	(1,722)	(1,759)	(1,811)	(1,859)	(1,910)
Distributions to members	-	(4,000)	(5,550)	(6,300)	(7,000)
Net cash used in financing activities	(1,722)	(5,759)	(7,361)	(8,159)	(8,910)
Annual cash flow	(346)	856	66	7	(12)
Beginning balance of cash	492	146	1,002	1,068	1,075
Ending balance of cash	\$ 146	1,002	1,068	1,075	1,063

See Summary of Significant Assumptions and Accounting Policies and Accountants' Compilation Report.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

The financial forecasts present to the best of the knowledge and belief of management (“Management”) of ARCLP – Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company”), the Company’s expected financial position, results of operations and cash flows as of and for each of the five years ending December 31, 2019 through 2023 based on the assumptions described herein.

The forecasts reflect Management’s judgment as of May 30, 2019, the date of these forecasts, of the expected conditions and its expected course of action assuming that the assumptions included herein occur.

This report was prepared for use by the Company for inclusion in its annual disclosure statement for the North Carolina Department of Insurance. Accordingly, this report should not be used for any other purpose. The assumptions disclosed herein are those that Management believes are significant to the forecasts. Even if the assumptions stated above occur, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Background Information

Until April 2007, a majority of the property and equipment used by the Company was owned by Countryside ALF, LLC (“CALF”), a New York limited liability company, registered to do business in North Carolina. CALF leased the community property and equipment to the Company, a Tennessee limited liability company, registered to do business in North Carolina. The Company is 99% owned by American Retirement Corporation (“ARC”), a Tennessee corporation and 1% owned by ARC Charlotte, Inc., a Tennessee corporation, which is owned 100% by ARC. ARC is the managing member of the Company and is a wholly owned subsidiary of Brookdale Senior Living Inc. (“Brookdale”). Brookdale is publicly traded on the New York Stock Exchange under the symbol “BKD”. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease. All of the aforementioned entities are for profit.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

Description of the Property and Facilities

The Company is an owner and operator of a senior living community (the “Community”) located on a 45-acre site at 5800 Old Providence Road in Charlotte, North Carolina and consisting of ten apartment buildings (one, two and three story) and seven four-plex villas with two large lakes in the center of the Community. The Company is committed to providing senior living solutions through a property that is designed, purpose-built and operated to provide the highest quality service, care and living accommodations for residents. The Community offers a variety of living arrangements and services to accommodate all levels of physical ability and health. The Community has 275 independent living units, 56 assisted living units, 34 memory care units, and 42 skilled nursing beds on one campus. The Community also has common spaces including a lobby, dining room, auditorium, game rooms, craft room, country store/snack bar, beauty/barber shop, clinic and offices. See Tables 1, 2, 3 and 4 for further detail of unit types and historical occupancy.

As a continuing care retirement community (“CCRC”) licensed by the North Carolina Department of Insurance, the Company offers a 13-month Residence Agreement, renewable for successive periods of 13 months. The Community began operation in July 1988, and ARC has managed the Community since its opening. ARC assumed ownership and responsibility for the operation in May 1996. In December 2001, the Company sold the majority of the Community property and equipment to CALF and contemporaneously entered into a long-term operating lease with a 15-year term. In April 2007, the Company purchased the property and equipment from CALF and terminated the associated lease.

Significant Accounting Policies

Accounts Receivable – Accounts receivable are reported net of an allowance for doubtful accounts to represent the Company’s estimate of the amount that will ultimately be realized in cash. The adequacy of the Company’s allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Late or interest charges on delinquent accounts are not recorded until collected.

ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Summary of Significant Assumptions and Accounting Policies

Property and Equipment – Property and equipment are recorded at cost. Renovations and improvements, which improve and/or extend the life of an asset, are generally capitalized and depreciated over the asset life. Maintenance and repair expenditures that do not improve or extend the life of assets are expensed as incurred. Depreciation is computed using the straight-line method using the following estimated useful lives:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 7 years

Statement of Cash Flows – For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash. The statements of cash flows represent the aggregate change in cash.

Other Current Assets – Other assets primarily consist of inventory and prepaid expenses.

Tenant Deposits – Represents fully refundable tenant deposits maintained in separate bank depository accounts or certificates of deposit and are classified as “cash – restricted” on the balance sheet. Interest is accrued on such deposits for the benefit of the tenants and paid out annually.

Income Taxes – No provision for federal or state income taxes has been made as income is reported on the tax returns of the investors, as the Company is a limited liability company.

Assumptions

The occupancy rates are based on historical utilization and the experience of Management when operating similar units at other properties it owns and/or manages. Historical occupancy percentages, as presented by Management, are summarized in Table 1.

Table 1					
Historical Average Occupancy					
	2015	2016	2017	2018	As of April 2019
Independent Living Units	90.1%	93.8%	94.2%	92.4%	90.0%
Assisted Living Units	98.9%	93.9%	91.3%	93.9%	96.2%
Memory Enhanced Units	97.2%	93.5%	96.1%	94.0%	83.1%
Skilled Nursing Units	68.5%	66.9%	59.6%	58.1%	65.3%
Overall Community	89.6%	90.8%	83.4%	89.2%	87.8%

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

Independent Living Utilization - The Company achieved stabilized independent living occupancy of 95% in 1997. The Company projects an average of 90.3% occupancy during 2019 and 90.7% throughout the remainder of the forecasted period. Average monthly rents were \$4,319 per unit during 2018 and are assumed to increase 3.8% in 2019 and each year thereafter.

Assisted Living Utilization – The Company achieved stabilized assisted living occupancy of 95% in 1997. The Company projects an average of 94.4% occupancy during 2019 and 92.6% throughout the remainder of the forecasted period. Average monthly rents were \$6,565 per unit during 2018 and are assumed to increase 4.5% in 2019 and each year thereafter.

Memory Care Utilization – The Company achieved stabilized memory-enhanced occupancy of 94.1% in 2002. The Company projects an average of 83.7% occupancy during 2019 and 87.1% throughout the remainder of the forecasted period. Average monthly rents were \$7,254 per unit during 2018 and are assumed to increase 3.7% in 2019 and each year thereafter.

Skilled Nursing Utilization – Skilled nursing beds are sheltered under CCRC regulations in the State of North Carolina and are not available to the outside community. The Company projects an average of 63.4% occupancy during 2019 and 61.9% throughout the remainder of the forecasted period. Average monthly rents were \$9,232 per unit during 2018 and are assumed to increase 2.6% in 2019 and each year thereafter.

Revenue Recognition

The Company is a rental community, and as such, the rate structure does not include entrance fees. Prior to the time of occupancy, the resident enters into a Residence Agreement and pays a \$5,050 nonrefundable membership fee for independent residents and a \$4,050 nonrefundable fee for assisted living residents. At the termination of the Residence Agreement, any prepaid expenses will be refunded to the resident, less amounts owed to the Company at that time and the costs of making any repairs to the apartment beyond normal wear and tear.

ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence

Summary of Significant Assumptions and Accounting Policies

Independent living revenue is based upon the expected occupancy of the independent living units and the monthly service fees expected to be charged to the resident of the units. Effective for the year 2019, the monthly service fees charged to the residents of the independent living units, as provided by Management, are summarized in Table 2.

Type of Unit	Number of Units	2019 Range of Monthly Fees
Magnolia (1 BR Efficiency/Studio)	29	\$2,745 - \$3,345
Gardenia (1 BR + 1 Bath)	102	3,345 – 4,345
Cherry Blossom (1 BR Deluxe)	39	3,545 – 4,345
Dogwood (2 BR + 2 Bath)	54	4,245 – 4,545
Jasmine (2 BR Deluxe)	23	4,200 – 4,845
Villa (2 BR Deluxe)	<u>28</u>	5,295 – 5,545
Total Independent Living Units	<u>275</u>	
Weighted Average Monthly Fees		\$4,100

Monthly service fees vary based upon the location and view of the units. A second person monthly fee of \$875 is charged in the independent living units. As provided by Management, monthly service fees are assumed to increase 3.8% in 2019 and each year thereafter.

Assisted living and memory enhanced revenue are based upon the expected occupancy of the existing home for the aged beds, the assisted living units and the monthly service fees expected to be charged to the residents of the units. Effective for the year 2019, the monthly service fees charged to the residents of the assisted living units, as provided by Management, are summarized in Table 3.

ARCLP – Charlotte, LLC
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Summary of Significant Assumptions and Accounting Policies

Table 3		
Unit Configuration - Assisted Living		
Type of Unit	Number of Units	2019 Monthly Fees
Assisted Living Units:		
Studio	42	\$6,631
Deluxe Apartment	6	6,778
Alcove	6	7,645
AL/HC Semi-Private	<u>2</u>	<u>7,695</u>
Total Units/Weighted Average	<u>56</u>	<u>6,793</u>
Memory Enhanced Units:		
	34	\$7,942

The monthly service fees for the assisted living units are assumed by Management to increase 4.5% annually beginning in January 2019. The monthly service fees for the memory-enhanced units are assumed by Management to increase 3.7% annually beginning in January 2019.

Skilled nursing revenue is based upon the expected occupancy of the existing nursing center and the monthly service fees expected to be charged to the residents of the units. Effective for the year 2019, the monthly service fees charged to the residents of the nursing center units, as provided by Management, are summarized in Table 4.

Table 4			
Unit Configuration - Skilled Nursing Center			
Type of Unit	Number of Beds ⁽¹⁾	2019 Daily Room Rate	2019 Monthly Fees
Skilled - Semi-Private Beds (Medicare-certified beds)	14	\$340.00	\$10,370
ICF - Private Room	8	\$339.00	10,340
ICF - Semi-Private Beds	<u>20</u>	\$275.00	8,388
Total Nursing Units	<u>42</u>		
Weighted Average Rate and Monthly Fees		\$308.86	\$ 9,420

⁽¹⁾ Skilled Nursing Center beds are licensed as Sheltered Beds and are only available for occupancy by residents transferring from independent living or assisted living units.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

The monthly service fees for the nursing center units are assumed by Management to increase 2.6% annually beginning in January 2019.

Other revenue consisting of income from therapy services, guest meals, processing fees and other miscellaneous items has been estimated by Management based on historical experience of the Company. Beyond 2019, other revenue is expected to vary based on overall facility occupancy as well as an inflation rate of approximately 2.3%.

Operating Expenses

Management has estimated operating expenses based on historical operating experience of the Company and the experience of other similar ARC retirement communities. Salaries and wages are based on historical salary and wage rates at the Company.

Table 5	
Staffing Levels and Average Salary - 2019	
Department	FTE's End of Year
Ancillary	41.1
General & Administrative	8.2
Nursing	23.9
Memory Enhanced	21.5
Assisted Living	17.1
Plant Operations & Maintenance	15.1
Housekeeping & Laundry	13.2
Resident Services	9.7
Food Services	41.0
Marketing	4.8
Total FTE's	195.6
Average Salary	\$34,787

The expected number of full-time equivalents (“FTE’s”) in Table 5 is based on Management’s historical experience and has been adjusted to meet the needs of the Community as the nursing beds reach stabilized occupancy. Salary and wages are assumed to increase 3.0% beginning in January 2019 and throughout the remainder of the forecasted period.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

The cost of employee benefits, consisting of payroll taxes, health care insurance, and other miscellaneous items is estimated by Management to approximate 20.8% of salaries and wages. The assumed increase in fringe benefits is based on the assumed increase in staffing, salaries and wage rates.

Estimated dietary expense consists of raw food and dietary supplies costs. These costs are based on the historical experience of the Company. Management assumes raw food and dietary supplies would vary according to the number of residents in the Community. Raw food costs and dietary supplies are assumed by Management to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The cost of utilities is based on the operating experience of the Company. Utility costs are assumed to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The cost of insurance is estimated by Management based upon historical experience and is assumed to decrease 10.5% annually in 2019 and to increase 2.0% annually in 2020 and throughout the remainder of the forecasted period.

The cost of other non-salary expenses including supplies, accounting, legal and other miscellaneous expenses is estimated by Management based on its experience at the Company and the experience of other similar ARC retirement communities. Non-salary expenses are assumed by Management to increase 2.0% annually in 2019 and throughout the remainder of the forecasted period.

The Company utilizes various management services provided by ARC. ARC collects management service fees of 5.0% of total Company revenues, related to services, which ARC has performed on behalf of the Company. Management fees to be paid to ARC by the Company are not reflected within the accompanying forecasted financial statements.

Management does not anticipate an extraordinary or significant amount of uncollectible fees during the forecasted period.

Property and Equipment

Management estimates capital additions to approximate 19.4% of annual revenue during 2019 and 2.0% for the remaining forecasted period. Such capital additions are depreciated using the straight-line method over the estimated useful lives of the related assets.

**ARCLP – Charlotte, LLC
d/b/a Brookdale Carriage Club Providence**

Summary of Significant Assumptions and Accounting Policies

Operating Reserve Fund

The North Carolina Department of Insurance (“DOI”) under Article 64 requires that CCRCs establish an Operating Reserve Fund in the form of cash, investments or other assets as permitted by the DOI, consisting of 50% of the following year’s forecasted operating expenses until they achieve a 90% occupancy level, at which time they are required to establish an Operating Reserve Fund consisting of 25% of the following year’s forecasted operating expenses. In accordance with Article 64, Management received approval from the Insurance Commissioner to establish the amount of the Operating Reserve Fund at 25% of the forecasted operating costs, less certain deductions as defined by law and the Insurance Commissioner, for a 12-month period.

Management’s assumed Operating Reserve Fund amounts for each year during the forecasted period are based on projected occupancy rates above 90%, indicating an Operating Reserve Fund equal to 25% of the forecasted annual operating expenses, less depreciation, amortization, and certain other deductions as defined by law and the Insurance Commissioner.

Long-Term Debt

In August 2017, the Company obtained \$95.8 million of debt secured by first mortgages on the Community. Sixty percent of the principal amount bears interest at a fixed rate, with one half of such amount bearing interest at 4.43% and maturing in 2024 and the other one half bearing interest at 4.47% and maturing in 2027. Forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 241.5 basis points and matures in 2027. The proceeds from the refinancing were primarily utilized to repay \$50.7 million of outstanding mortgage debt scheduled to mature in August 2018.

In 2018, the Company removed one community from the Community's loan portfolio which resulted in a reallocation of additional mortgage debt to the Community of \$1.9 million.

Distributions to Members

Management assumes distributions may be made to Members of the Company. Such distributions are assumed to be conditional upon the Company’s compliance with all minimum Operating Reserve Fund requirements as set forth by the DOI. Management has assumed the Company may distribute unrestricted cash balances that exceed 20 days of operating cash on hand.



INDEPENDENT LIVING RESIDENCY AND SERVICES AGREEMENT

This Residency and Services Agreement (“Agreement”) is made and entered into as May 25, 2017 by and between ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (“Community,” “us,” “we” or “our”) a residential community located at 5800 Old Providence Rd., Charlotte, NC 28226 and Test Smith (“Resident,” “you” or “your”). If more than one person enters into this Agreement, the words “Resident,” “you” or “your” shall include both persons, unless context otherwise indicates. The terms and conditions of the Agreement are as follows:

I. **ACCOMMODATIONS & SERVICES.**

A. **Accommodations.**

1. **Community.** The Community is a licensed independent living senior residential community/Continuing Care Retirement Community.
2. **Apartment.** You have elected to live in the apartment noted on Exhibit A (“Apartment”). The Apartment contains such furnishings and amenities as described in the Addendum to this Agreement.
3. **Common Areas.** You are entitled to use and enjoy, on a non-exclusive basis, the Community’s grounds and common areas, subject to our rules and regulations. You agree that your use of the common areas will not unreasonably interfere with its normal and customary use by any other person entitled to use such areas. We may eliminate, modify or expand common areas in our sole discretion and without notice. You acknowledge that not all common areas may be available at all times. Unavailability of the common areas does not constitute a breach of this Agreement.
4. **Furnishings.** You may furnish your Apartment with your own furniture, small appliances, special equipment, and personal property, provided that our safety standards are met. You will be responsible for removing all furnishings and personal belongings after you vacate your Apartment.

B. **Basic Services.** We will provide you with the following Basic Services, which are included in the Monthly Fee, subject to the terms of this Agreement:

1. **Meals.** We will provide meals as set forth in the Addendum to this Agreement. Other meals and meal delivery are available for an additional charge as listed on Exhibit X. The meals served are not designed for any specific diet or dietary restrictions.
2. **Utility Service.** Unless otherwise noted in the Addendum to this Agreement, the cost of gas, electricity, water and sewer service, basic cable, satellite or comparable television service is included. You are responsible for paying any other utility charges including, but not limited to, telephone, internet charges or premium cable charges.
3. **Housekeeping Service.** We will provide light housekeeping in your Apartment as set forth in the Addendum to this Agreement. Other housekeeping services are available for an additional charge as listed on Exhibit X.

4. **Laundry.** We will provide laundry services and facilities as set forth in the Addendum to this Agreement. Additional personal laundry service is available for an additional charge as listed on Exhibit X.
 5. **Grounds Keeping.** We will provide grounds keeping care, including landscaping, snow removal, external painting and outside window cleaning, as we deem appropriate.
 6. **Social & Wellness Programming.** We will provide planned social, recreational and wellness programs. An additional charge may apply to certain activities.
 7. **Transportation.** We will make available scheduled transportation as set forth in the Addendum to this Agreement. All other transportation costs, including taxi and ambulance charges, are your responsibility.
 8. **Parking.** You may have access to an unreserved parking space on a first-come, first-serve basis. Additional parking will be available as set forth in the Addendum to this Agreement.
 9. **Emergency Call System.** Your Apartment will be equipped with an emergency call system that can be activated to alert staff to emergencies. In the event of an emergency, you may also call local emergency personnel (police, fire, ambulance) by dialing 911.
 10. **Select Services.** Select Services are available to you at your request. Such services may include, but are not limited to additional meals, guest meals, transportation beyond that which is included in the Monthly Fee or special events. Such additional services are not included in the Monthly Fee. A list of the available Select Services as well as the associated prices is found on Exhibit X to this Agreement.
- C. **Change in Services.** We will provide thirty (30) days written notice of any change in the scope of services we provide.
- D. **Condition and Use of Premises.** If you incurs mental or physical illness which makes it medically necessary for you to be transferred to the Assisted Living residency, Memory Care, Health Care, or another appropriate facility, then you will be transferred to the appropriate level of care. This is determined and based on the opinions of our medical staff and in consultation with your personal physician. The Community maintains a policy on our levels of care and services that are offered. These policies serve as a guide for determining when a change in level of care is necessary. Except in an emergency, a transfer or change in level of care will be made only after consulting with you or your Legal Representative.

II. **TERM.**

- A. **Right of Occupancy.** You understand and agree that you are not acquiring any ownership, leasehold, or management interest in your Apartment, the Community, our assets including furnishings and fixtures in your Apartment and in the common areas, or any part thereof. This Agreement provides a right of occupancy of the Apartment and non-exclusive use of specified common areas of the Community. The right of occupancy and use is personal to you and cannot be transferred, assigned or pledged to any other person or entity, except as otherwise provided herein. Your right of occupancy is also subject to termination as provided herein. You agree that the Community and the Apartment are in satisfactory, habitable condition, and you accept occupancy of the Apartment in its current condition.
- B. **Term.** The initial term of this Agreement shall be for thirteen (13) months from the date listed in Exhibit A (“Commencement Date”) and shall continue until either party terminates in accordance with the termination provisions stated herein (“Term”).

Residents may rescind their Agreement within thirty (30) days following the later of the execution of their Residency Agreement or the receipt of a disclosure statement that meets the requirements of N.C.G.S. §58-64-20. Residents are not required to move into the Carriage Club Providence before the expiration of the thirty (30) day rescission period.

If a resident dies before occupying a living unit at the Community, or if, on account of illness, injury, or incapacity, is precluded from occupying a living unit at the Community under the terms of his or her Agreement, the Agreement is automatically canceled.

For rescinded or canceled Agreements under the two paragraphs immediately above, the resident or resident's legal representative shall receive a refund of all money or property transferred to the Community, less (i) Periodic charges specified in the Agreement and applicable only to the period the Agreement is in effect; (ii) those nonstandard costs specifically incurred by the Community at the request of the resident and described in the Agreement or any amendment to the Agreement signed by the resident; and (iii) non-refundable fees, if set out in the contract. Such refund will take place within thirty (30) days of receipt of written notification.

III. THIS RESIDENCY AGREEMENT WILL AUTOMATICALLY BE RENEWED FOR SUCCESSIVE PERIODS OF THIRTEEN (13) MONTHS UNLESS EITHER PARTY SHALL PROVIDE FORTY-FIVE (45) DAYS ADVANCE WRITTEN NOTICE OF TERMINATION PRIOR TO THE EXPIRATION OF THE CURRENT TERM.

IV. FEES.

- A. **Community Fee.** A one-time non-refundable Community Fee in the amount indicated in Exhibit A must be paid at the time this Agreement is signed. The Community Fee is neither a security deposit nor an application fee and does not excuse you from financial responsibility for any damage caused to the Apartment or the Community other than reasonable wear and tear, or any other outstanding fees and charges.
- B. **Monthly Fee.** You agree to pay the Monthly Fee ("Monthly Fee") indicated on Exhibit A. If this Agreement is for two residents, you are responsible for paying the Second Person Fee ("Second Person Fee") set forth on Exhibit A. You are responsible for paying all applicable sales and use taxes, if any. The Monthly Fee, the Second Person Fee, if applicable, and any other recurring charges included on the monthly statement are collectively called the "Total Monthly Fee."
- C. **Select Services.** You agree to pay the established charges for any Select Services we provide to you.
- D. **Resident Absence.** Unless otherwise noted in the Addendum to this Agreement, if you are absent from the Community for any reason, the Agreement will remain effective and you will be charged the full Total Monthly Fee. If you provide written notice of your intent to terminate the Agreement pursuant to Section VII, termination will be effective and charges will cease the later of the end of any applicable notice period or the removal of all of your personal belongings.
- E. **Payment.** The Total Monthly Fee, plus any applicable sales and use taxes, are due and payable, without offset, on or before the first day of each calendar month. The Total Monthly Fee, which shall be made payable to Brookdale Senior Living Inc., shall be mailed to the address on the invoice or such other address as we may designate. The Total Monthly Fee for the first month will be pro-rated if occupancy commences on a day other than the first

day of the month. We will issue a statement for any Select Services you have received during the prior month. Payment is due within 10 days of the issuance of such invoice.

We will charge a \$250.00 late fee if payment is not received when due. We will also charge a \$50.00 returned payment fee for each check or automatic withdrawal that is returned by a financial institution for any reason. After a financial institution returns two payments to the Community, you must pay the Total Monthly Fee and any other amounts due by cashier's check or such other method specified by us. You agree to pay interest on all amounts not paid by the due date. The interest rate will be the lesser of 1.5% per month or the highest rate permitted by law.

- F. **Fee Changes.** The Monthly Fee and Second Person Fee may be changed at our sole discretion. We will give at least **thirty (30) days** written notice of an increase to the Monthly Fee, Second Person Fee, and Total Monthly Fee. If you do not accept the proposed fee changes, you may terminate this Agreement by providing written notice of termination, which termination notice must be received within **thirty (30) days** of the date of our fee change notice. We may increase the fees for Select Services at any time upon **thirty (30)** days prior written notice.

V. MAINTENANCE, REPAIRS AND ALTERATIONS.

- A. **Maintenance and Repairs.** We will be responsible for making all necessary repairs to your Apartment. However, you will be responsible for reimbursing us for the cost of any repairs to your Apartment that are not the result of normal wear and tear. You agree to use appliances provided by us only in the manner described in the manufacturer's instructions. To the extent we agree to perform maintenance on your personal property, you shall agree to pay the cost thereof.
- B. **Structural and Non-Structural Alterations.** You may make reasonable alterations, additions, or modifications to your Apartment, whether based on a disability or not, provided that: (1) you obtain prior written approval from the Executive Director to make the specific alterations, additions, or modifications; (2) you contract for these changes prior to beginning alterations directly with us or with a contractor approved by us; and (3) you assume sole financial responsibility for these changes. All such changes must be in compliance with applicable safety and government codes and regulations. If you have a disability and need a reasonable modification (a structural change to afford you equal opportunity to use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. The cost of any alterations made by you shall be paid by you unless otherwise agreed to in writing. You shall not make holes in the floors, walls or fixtures of the Apartment without our prior written approval. You agree that you will bear the cost of restoring the apartment to its original condition, reasonable wear and tear excepted, upon termination of this Agreement, unless we specifically exempt you from this requirement in writing. We may enter and make any modifications or alterations to the Apartment to meet the requirements of any applicable laws.
- C. **Damages.** You agree to maintain your Apartment in a clean, sanitary and orderly condition, normal wear and tear accepted. You are liable for any damages to the Apartment or any other part of the Community that are beyond normal wear and tear or caused by the negligence or misconduct of you or your guests (including any agent, employee, contractor, or other invitee) including any related costs, expenses and reasonable attorneys' fees. If your non-compliance or breach of this Agreement can be remedied by repair or replacement of a damaged item or cleaning and you fail to remedy such non-compliance or breach as

promptly as circumstances require in the case of an emergency or, in any event, within fourteen (14) days after written notice from us to you specifying the non-compliance or breach and requesting that you remedy such non-compliance or breach within that period of time, you agree that (i) we may enter the Apartment and cause the work to be done in a workmanlike manner and (ii) we may invoice you for the actual and reasonable cost. This provision will survive termination of this Agreement.

- D. **Right of Entry**. Our associates must be permitted to enter your Apartment to provide services under the terms of this Agreement, to respond to emergencies, to make repairs and improvements, or if there is reasonable belief that your safety or safety of others is in question or that our policies and procedures are being violated, as we deem necessary or advisable. Therefore, you may not change the locks or install additional locks to your Apartment's entrance door. When feasible, our associates will attempt to give you reasonable notice before entering your Apartment.
- E. **Transfers from Apartment**. If you relocate to a different apartment, you are responsible for paying the then-current transfer fee. The transfer fee will not apply if the transfer is initiated at our request to comply with any law or lawful order of any authorized public official, or for any other reasonable purpose, as determined by us. You agree to such substitution, and to pay the Monthly Fee for your new Apartment and any Second Person Fee if applicable. We shall make reasonable efforts to substitute your Apartment with a substantially similar Apartment.
- F. **No Tenancy Interest**. You have none of the rights of a tenant under this Agreement, subject to applicable laws of the State of North Carolina.

VI. RESIDENT RESPONSIBILITIES AND REPRESENTATIONS.

- A. **Conditions of Residency**. You understand and agree that, to be accepted into the Community, you must be at least sixty-two (62) years of age. You are required to meet the conditions of residency, independently or with the assistance of a third party.
- B. **Rule & Regulations Compliance**. You acknowledge receipt of and agree to abide by our rules and regulations including our general policies contained in the Resident Handbook ("Rules and Regulations"), as they now exist or as they may be amended in our sole and absolute discretion. If you have a disability and need a reasonable accommodation (a change in our rules or policies to equally use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. You understand that failure to abide by the Rules and Regulations may result in termination of this Agreement. The Rules and Regulations are incorporated by reference into this Agreement. In the event of a conflict between the terms of this Agreement and the Rules and Regulations, the terms of this Agreement shall control.
- C. **Responsibility for Resident's Care**. You shall be responsible for your personal care and health care needs. You hereby indemnify, hold harmless and release us and our directors, agents, and employees, from any and all liability, cost and responsibility for injury and damage, including attorneys' fees, arising from your failure to obtain, or from others' failure to furnish (excepting a corporate affiliate solely with respect to any services required to be provided by such affiliate pursuant to a fully executed service agreement), appropriate personal care or health care services, and from all injury and damage which could have been avoided or reduced if such services had been obtained or furnished.
- D. **Obligatory Information**. You agree to provide accurate, complete and current information about yourself and about any emergency contact, including but not limited to addresses,

phone numbers, and email address. You understand that you must promptly notify us of changes to the information stated above. If you do not have advance directives in place, you understand that a court may appoint a guardian to make decisions on your behalf if you are no longer able to do so. Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, you agree to pay any costs associated therein.

- E. **Motorized Vehicles and Carts.** You may use a motorized vehicle, subject to the following:
1. Your ability to walk is substantially limited due to a disability;
 2. Your operation of the vehicle does not pose a threat to the health and safety of yourself or others;
 3. The vehicle is operated at a low speed setting; and
 4. You agree to abide by our safety guidelines for the use of motorized vehicles on the premises, which may be modified from time to time.

Reasonable accommodations will be made to the rules, policies and practices (upon a showing of necessity) so long as the requested accommodation does not constitute a threat to the health or safety of you, the other residents, our associates or visitors.

You agree to pay for all damages to others or to the Community, which are caused by you or your motorized vehicle and that we may invoice you for such costs. You further understand and agree that we may, at our sole discretion, prohibit your further use of a motorized vehicle at any time.

- F. **Guests.** You may have guests overnight in the Apartment, but if you desire to have guests overnight for more than seven (7) days in any one month, you must obtain the Executive Director's prior written consent. You are responsible for the charges incurred by and actions of any guest. No more than two (2) overnight guests may be present in your Apartment without our prior written consent. No guests are permitted overnight in your Apartment if you are not present, unless you obtain approval from us. You may not charge guests for the use of the Apartment. Your guests shall abide by our Rules and Regulations. When visiting the Community, guests have the right to park only in the area designated by us. You may bring guests to the dining room to the extent space is available, with Community residents having first preference. The charge for guests' meals is listed in Exhibit X. Any private duty personnel providing services to you are not considered guests and are not entitled to the same privileges as guests.

If your guests become disruptive to our operations and/or are verbally or physically abusive to staff, residents or others, we may request that they leave the Community until their behavior is under control or may place limitations upon the location and time of their visitation. You understand that, where circumstances warrant, we may exclude such individuals from the Community.

- G. **Financial Requirements.** You agree that we have the right to require you to provide financial information and to be approved by us as having sufficient assets and income to pay the Total Monthly Fees and other charges related to occupancy. We also reserve the right to require updated financial information prior to the effective date of this Agreement.
- H. **Joint Occupancy.** If there is more than one Resident entering into this Agreement, each Resident is responsible for any payments due to us and is entitled to all the benefits and services under this Agreement. In the event that one of you moves out, or your occupancy is otherwise terminated for whatever reason, the Total Monthly Fee will be reduced by the

amount of the Second Person Fee then in effect. The remaining Resident may continue to reside in the Apartment or move to a smaller Apartment, if available, and pay the market rate then in effect for a smaller Apartment or may find another resident to occupy the Apartment provided such resident meets all requirements for such occupancy in the Apartment. In these circumstances, to add a new occupant to the Apartment, you must obtain our prior written approval and we will require such person to be added to the Residency Agreement and pay the Second Person Fee then in effect. Each potential resident must meet all age and financial requirements before being accepted.

- I. **Use of Apartment.** You agree to use the Apartment only for residential purposes and not for business purposes or the practice of any profession without our express prior written consent. You agree not to conduct an auction or sale in the Apartment which is improper, offensive, or contrary to law or ordinance.

VII. SERVICES NOT COVERED BY AGREEMENT.

- A. **Excluded Services.** We are not responsible for furnishing or paying for any health care items or services not expressly included in this Agreement. If the service is not something that we have agreed to provide you, then it will be considered an excluded service, and you must furnish it at your own expense.
- B. **Third Party Providers.** All outside caregivers, companions, private duty aides and other personnel employed or retained by you to provide services at the Community (“Private Duty Personnel”) shall be subject to the Rules and Regulations, and other policies, including, without limitation, the Standards of Performance & Conduct for Private Duty Personnel Employed by Residents, available upon request. If you retain or otherwise use the services of Private Duty Personnel, you agree to indemnify and hold harmless us and our officers, directors, shareholders, affiliates, employees, contractors, representatives and agents and their respective successors and assigns, from and against all losses, costs, damages and liabilities (including reasonable attorneys’ fees) arising out of the acts or omissions of any such Private Duty Personnel. We reserve the right to refuse to permit certain Private Duty Personnel from entering the Community if we have reason to believe that such Private Duty Personnel fails to adhere to our standards or poses a threat to residents or others. We are not responsible for screening or evaluating the competence or ability of any Private Duty Personnel.
- C. **Hiring of Associates.** You may not hire our current associates to provide services in the Community. You may contract with former associates to perform any services at the Community only with our consent. We reserve the right to refuse entry to (1) former associates; (2) persons whose actions may be disruptive to the Community; or (3) persons whose actions may threaten the safety of any resident or associate.

VIII. TERMINATION.

- A. **Termination by Either Party.** Either party may terminate this Agreement:
 1. Upon sixty (60) days advance written notice.
 2. Immediately in the event of your death.

For terminations under this Section, you will be responsible for paying all amounts due under this Agreement until the later of the expiration of the notice period, or until all of your belongings are removed and the Apartment keys are returned to the Community.

- B. **Breach by Resident.** We may terminate this Agreement upon ten (10) days written notice:
1. If you are in default of payment of any amounts due under this Agreement and you fail to cure such default within ten (10) days' notice;
 2. You violate any of the terms, covenants or conditions of this Agreement, or the Rules and Regulations;
 3. You or your guests are habitually disruptive, create unsafe conditions, are physically or verbally abusive to other residents or individuals or otherwise impair the welfare of yourself or others;
 4. You acquire a condition or engage in conduct that interferes with or jeopardizes the health, safety, and/or peaceful lodging of any other individual at the Community or interferes with the performance of Community staff members' duties;
 5. You engage in conduct constituting a nuisance, illegal use of the premises, or waste;
 6. You materially damage the Residence and/or property of the Community;
 7. For your welfare or the welfare of others;
 8. If the Community ceases to operate.
- C. **Immediate Termination.** We may, upon written notice to you, immediately terminate the Agreement, and transfer you or require you to move if:
1. You engage in conduct that poses a danger to yourself or others;
 2. You engage in criminal activity in your unit or you, members of your household or your guests have engaged in criminal activity on or in the immediate vicinity of the Community;
 3. You require emergency relocation to a hospital; or
 4. You become incapable of providing or fail to provide for your health care or personal care needs.
- Any determination that you are required to move for the reasons set forth in this paragraph shall be made in our sole judgment.
- D. **Effect of Joint Occupancy upon Termination.** Notwithstanding the foregoing, if this Agreement applies to two (2) Residents, it will remain in full force and effect after either the death of one of the Residents or if a termination occurs as detailed herein as to one (1) of the Residents, subject to adjustments as defined herein.
- E. **Vacating Apartment.** You will vacate the premises, removing all of your personal property on or before the effective date of termination. If you fail to remove your belongings by the effective date of termination, you understand and agree that we will continue to charge you the Monthly Fee for your Apartment. If the amount of belongings does not preclude renting the Apartment, we may clear the Apartment and charge you for moving and storing the items. If your possessions are not claimed within thirty (30) days after notification, we may dispose of them. You will provide written notice of a forwarding address where you can be reached and receive mail.
- F. **Condition of Apartment.** Upon termination of the Agreement, you will leave the Apartment in a clean and tenantable condition and in the same condition as it existed at the beginning of the Agreement, except for reasonable wear and tear and any alterations or

additions made that we elect to retain. You agree to reimburse us for any and all costs of restoring the Apartment to the condition existing at the beginning of your occupancy.

- G. **Effect of Termination.** Termination will not release either party from any liability or obligation to the other party under the terms of this Agreement.
- H. **Services Pending Termination.** You acknowledge and agree that, pending termination of the Agreement due to requiring services or staff not available in the Community, we may arrange for the provision of one-on-one care and you will pay for such care if we determine that such care is needed to protect your health or safety or the health or safety of others.

IX. AGREEMENT TO ARBITRATE.

SHOULD ANY OF SUBSECTIONS A & B PROVIDED BELOW, OR ANY PART THEREOF, BE DEEMED VOID OR INVALID, THE VALIDITY OF THE REMAINING SUBSECTIONS, OR PARTS THEREOF, WILL NOT BE AFFECTED.

A. **Arbitration Proceedings.**

1. Any and all claims or controversies arising out of, or in **any** way relating to, this Agreement or any of your stays at the Community, excluding any action for eviction or involuntary discharge, and including disputes regarding interpretation, scope, enforceability, unconscionability, waiver, preemption and/or violability of this Agreement, whether arising out of State or Federal law, whether existing or arising in the future, whether for statutory, compensatory or punitive damages and whether sounding in breach of contract, tort or breach of statutory duties, irrespective of the basis for the duty or the legal theories upon which the claim is asserted, shall be submitted to binding arbitration, as provided below, and shall not be filed in a court of law. **The parties to this Agreement further understand that a judge and/or jury will not decide their case.**
2. The parties hereby expressly agree that this Agreement, the Admission Agreement and the Resident's stays at the Community substantially involve interstate commerce, and stipulate that the Federal Arbitration Act ("FAA") shall exclusively apply to the interpretation and enforcement of this Agreement, and shall preempt any inconsistent State law and shall not be reverse preempted by the McCarran-Ferguson Act; United States Code Title 15, Chapter 20, or other law. Any party who demands arbitration must do so for all claims or controversies that are known, or reasonably should have been known, by the date of the demand for arbitration, and if learned of during the course of the arbitration proceeding shall amend the claims or controversies to reflect the same. All current damages and reasonably foreseeable damages arising out of such claims or controversies shall also be incorporated into the initial demand or amendment thereto.
3. A demand for Arbitration by you, your legal representative, a person or organization acting on your behalf with your consent, or the personal representative of your estate (collectively "Resident Party") shall be made in writing and submitted to Timothy Cesar, Brookdale Senior Living Inc., 6737 W. Washington St. #2300, Milwaukee, WI 53214, via certified mail, return receipt requested. Demand for Arbitration by us shall be made in writing and submitted to you or your agent, representative, successor or assign and/or your legal representative via certified mail, return receipt requested.
4. The arbitration proceedings shall take place in the county in which the Community is located, unless agreed to otherwise by mutual consent of the parties.

5. The arbitration panel shall be composed of one (1) arbitrator. Subject to the requirements of Section VIII.A.6. below, the parties shall agree upon an arbitrator that must be a member of the North Carolina Bar with at least ten (10) years of experience as an attorney. If the parties cannot reach an agreement on an arbitrator within twenty (20) days of receipt of the Demand for Arbitration, then each party will select an arbitrator. These arbitrators will act only for the purpose of appointing a sole arbitrator to hear the case, subject to the criteria above. If either party fails to select their arbitrator within the (20) days mentioned above, they effectively forfeit their right to choose an arbitrator.
6. The arbitrator shall be unbiased of all parties, witnesses, and legal counsel. No past or present officer, director, affiliate, subsidiary, or employee of a party, witness, or legal counsel may serve as an arbitrator in the proceeding.
7. Discovery in the arbitration proceeding shall be governed by the North Carolina Rules of Civil Procedure. However, discovery may be modified by agreement of the parties.
8. The arbitrator shall designate a time and place within the county in which the Community is located, for the arbitration hearing and shall provide thirty (30) days' notice to the parties of the arbitration hearing.
9. The arbitrator shall apply the North Carolina Rules of Evidence and North Carolina Rules of Civil Procedure in the arbitration proceeding except where otherwise stated in this Agreement. Also, the arbitrator shall apply, and the arbitration decision shall be consistent with, North Carolina law except as otherwise stated in this Arbitration Provision.
10. The arbitration decision should be signed by the arbitrator and delivered to the parties and their counsel within thirty (30) days following the conclusion of the arbitration. The decision shall set forth in detail the arbitrator's findings of fact and conclusions of law.
11. The arbitrator's decision shall be final and binding and such decision may only be vacated or modified as allowed by the Federal Arbitration Act.
12. The arbitrator's fees and costs associated with the arbitration shall be divided equally among the parties. The parties shall bear their own attorneys' fees and costs and hereby expressly waive any right to recover attorney fees or costs, actual or statutory.
13. The arbitration proceeding shall remain confidential in all respects, including the Demand for Arbitration, all arbitration filings, deposition transcripts, documents produced or obtained in discovery, or other material provided by and exchanged between the parties and the arbitrator's findings of fact and conclusions of law. Following receipt of the arbitrator's decision, each party agrees to return to the producing party within thirty (30) days the original and all copies of documents exchanged in discovery and at the arbitration hearing, except those documents required to be retained by counsel pursuant to law. Further, the parties to the arbitration also agree not to discuss the amount of the arbitration award or any settlement, the names of the parties, or name/location of the Community except as required by law.
14. This Arbitration Provision binds third parties not signatories to this Arbitration Provision, including any spouse, children, heir, representatives, agents, executors, administrators, successors, family members, or other persons claiming through the Resident, or persons claiming through the Resident's estate, whether such third parties make a claim in a representative capacity or in a personal capacity. Any claims or grievances against the Community or the Community's corporate parent, subsidiaries,

affiliates, employees, officers or directors shall also be subject to and resolved in accordance with this Arbitration Provision.

15. The terms of this Arbitration Provision are severable.

16. The Arbitration Provision shall survive the termination of this Agreement and/or your death.

- B. **BENEFITS OF ARBITRATION.** The parties' decision to select arbitration is supported by the potential cost-effectiveness and time-savings offered by selecting arbitration, which may avoid the expense and delay of judicial resolution in the court system. The parties' decision to select arbitration is supported by the potential benefit of preserving the availability, viability, and insurability of a long term care company for the elderly and disabled in North Carolina, by limiting such company's exposure to liability. With this Agreement, we are better able to offer our services and accommodations at a rate that is more affordable to you. In terms of the potential time-savings offered by selecting arbitration, the parties recognize that selecting a quick method of resolution is potentially to a resident's advantage.

You and/or your legal representative understand that other long term care companies' Agreements may not contain an arbitration provision. The parties agree that the reasons stated above are proper consideration for the acceptance of the Arbitration Provision. **The undersigned acknowledges that he or she has been encouraged to discuss this Agreement with an attorney.**

The parties to this Agreement further understand that a judge and/or a jury will not decide their case.

X. MISCELLANEOUS.

- A. **Waiver of Jury Trial.** If a court determines that the Arbitration Provision provided in this Agreement is invalid, the parties expressly waive a jury trial and agree to resolve their claims in the appropriate court solely before a judge.
- B. **Risk Agreement.** You are responsible for your personal, financial and health care decisions. In addition, you are responsible for maintaining at all times your own health, personal property, liability, automobile (if applicable), and other insurance coverages in adequate amounts. You agree to obtain insurance with coverage for your personal property and your general liability. You acknowledge that we are not an insurer of your person or property. You understand and agree that:
1. You may be encouraged to participate in Community, leisure, and social activities and to maintain an appropriate level of independence in activities of daily living, as well as your personal and financial affairs;
 2. Independent activities, responsibility for personal, financial, and health care decisions, and lifestyle and care preferences may involve risks of personal injury and/or property damage or loss;
 3. Throughout the Community, there may be public balconies and/or a balcony in your Apartment. If you choose to use such balcony, you do so at your own risk. We are not responsible for any injury that may result from use of a balcony. We are also not responsible for damage or loss of any property used or placed on a balcony;
 4. The services we provide may not meet all of your personal, social, or health care needs;
 5. We make no representations or guarantees that the Community is secure from theft or any other criminal act perpetrated by any other Resident or person; it is recommended

that valuables, including but not limited to, jewelry and large amounts of money, not be brought into the Community. If you choose to bring in such valuables, you are doing so at your own risk and we will not be responsible for any theft or loss of these items;

You understand and agree to assume the risks inherent in this Agreement. You agree to hold us and our employees and agents harmless for any damages or injury or other loss resulting from: (1) reasonable acts or omissions made in good faith; (2) action of any third party, fire, water, theft or the elements; (3) loss of personal property; (4) your failure to obtain appropriate health care or personal care services; (5) the failure of your chosen provider of health care or personal care services to furnish such services; or (6) injury and damage which could have been avoided or reduced if health care or personal care services had been obtained or furnished. We will only be liable for damages, injuries or other losses to you or any third party entering an Apartment, or any other part of the Community, if due to our willful misconduct or negligence.

We reserve the right to recover from you any loss caused by fire, vandalism or any other acts by you or your invitees or guests. We may assign such right to our insurance carrier.

- C. **Smoking**. Smoking is not permitted in any part of the Community, including your Apartment.
- D. **Pets**. You may have a household pet in your Apartment, subject to (1) our prior written approval, (2) execution of a Pet Agreement, which is available upon request and (3) payment of any applicable pet fee. You agree to pay for any damage to our property or the property of others caused by your pet. We reserve the right to require the permanent removal of your pet for failure to adhere to the Pet Agreement or our applicable policies and rules, or if we have reason to believe that your pet poses a threat to others or the Community.
- E. **Waiver**. Our failure in any instance or instances to insist upon your strict performance or observation of or compliance with, any of the terms or provisions of this Agreement, shall not be construed to be a waiver or relinquishment of its right to insist upon your strict compliance with all of the terms and provisions of this Agreement.
- F. **Remedies**. In the event of any termination of this Agreement, and in addition to any other remedies set forth in this Agreement or available at law or in equity, we may enter into an agreement with others for occupancy of the Apartment, and you will remain obligated for all fees, charges and other obligations incurred or accrued through the date of such termination.
- G. **Notices**. Notices, other than for arbitration, will be written and given by personal delivery or mailing by regular mail, postage pre-paid to the following or such other persons or places as the parties may notify each other. Notices shall be deemed given based upon the date personally delivered or upon the date postmarked.

The Community:
Executive Director at Community

Resident:
(as noted at end of this Agreement)

- H. **Captions**. The captions of the Sections hereof are for convenience only and in no way shall limit, enlarge, define or otherwise affect the scope or intent of this Agreement or any provisions hereof.
- I. **Non-Discrimination**. We do not discriminate on the basis of race, religion, national origin, gender or disability. We are not affiliated with any religious organization.

- J. **Federal Law**. Nothing in this Agreement shall be construed to violate any provision of Title VI of the Housing and Community Development Act.
- K. **Subordination**. This Agreement and the parties' rights under it will be subordinate to any ground lease, mortgage or deed of trust now or hereafter placed upon the Community, but your right to remain in possession of your Apartment will not be disturbed so long as you comply with all of the provision of this Agreement. Resident shall, within ten (10) days of receipt thereof, promptly execute and deliver such written instruments as shall be necessary to show the subordination of this Agreement to said mortgage, lease, land use restriction or other such instrument in the nature thereof.
- L. **Heirs and Successors**. This Agreement is for the benefit of and binds the parties and their respective heirs, representatives, successors and assigns.
- M. **Time of the Essence**. Time is of the essence hereunder.
- N. **Amendments**. Except for our right to modify fees, rates and charges, amend services provided and establish reasonable operating procedures and rules for the general welfare and safety of the residents, this Agreement may be amended only in writing signed by both parties.
- O. **Assignment**. We may engage another person or entity to perform any or all of the services under this Agreement.
- P. **Indemnification**. You shall indemnify, defend and hold harmless us and our officers, directors, shareholders, affiliates, employees, representatives and agents, and their respective heirs, legal representatives, successors and assigns, from and against any and all losses, costs, damages and expenses incurred, whether in the Apartment, in any portion of the Community or on our grounds or while in transit thereto or therefrom, or for any injury to person or property of others, resulting from the negligence, recklessness or intentional act or omission of you or your guests. Further, if you retain, or otherwise use, the services of private duty aides or other third party care givers, you shall indemnify and hold harmless us and our officers, directors, employees, contractors, representatives and agents and their respective successors and assigns, from and against all reasonable losses, costs, damages and liabilities (including reasonable attorneys' fees and costs) arising out of the acts or omissions of any private duty aide or other third party care giver or their officers, directors, employees, contractors, representatives and agents and their respective successors and assigns. We are not responsible for payment or reimbursement of health care costs that you incur resulting from the acts or omissions of any third party provider.
- Q. **Reliance**. You warrant that all information contained in the documents supplied by you as part of the application and admission process are true and correct, and that, in your judgment, your income and assets are and will remain adequate to meet your financial obligations under this Agreement and you understand that we have relied on this information in accepting you at the Community. All personal and other information required to be submitted by you constitutes a material part of this Agreement and any material misrepresentation or omission renders this Agreement terminable at our option.
- R. **Severability**. Should any part of this Agreement or the Exhibits be invalid, the validity of the other parts of this Agreement or Exhibits will not be affected.
- S. **Waiver of Subrogation**. The parties waive any rights each may have against the other, on account of any loss or damage occasioned to Resident or the Community, as the case may be, their respective property, the Community or its contents, or the Apartment or its contents, arising from any risk covered by valid and enforceable insurance, to the extent of such

coverage. The Community and Resident each agree to take any action reasonably requested by the other party to verify the effectiveness of this waiver of subrogation.

- T. **Entire Agreement.** This Agreement, including the Exhibits any attachments and the Resident Handbook constitute the entire agreement between Resident and the Community. We are not liable for and not bound in any manner by any statement made by any person representing or claiming to represent the Community, unless those statements are expressly set forth in this Agreement.
- U. **Acknowledgement.** By the signature(s) below, you acknowledge this Agreement in its entirety, acknowledge receipt of the Exhibits hereto and certify that they have read this entire Agreement in full, together with the Exhibits. You further acknowledge that you have been encouraged to discuss this Agreement with an attorney.

BY THEIR SIGNATURES, the parties or their representatives have executed this Agreement effective as of the date set forth above.

First Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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Second Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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For the Community	Title	Date
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SEND NOTICES AND MONTHLY STATEMENTS TO FIRST RESIDENT IN CARE OF:

Name: Test Smith
Address: Test Road Testa, NC 45464
Phone No.: 456-464-6465

SEND NOTICES AND MONTHLY STATEMENTS TO SECOND RESIDENT IN CARE OF:

Name: Toss Smith
Address: Test Road Testa NC 45646
Phone No.: 465-465-4654

EXHIBITS INCLUDED:

- A. Schedule of Services and Rates
- B. Authorization to Use and Disclose Information
- Addendum for Community-Specific Basic Services and Operating Policies

ADDITIONAL EXHIBITS:

- X. Select Services List

**EXHIBIT A
SCHEDULE OF SERVICES AND RATES**

Resident(s): **Test Smith**

Apartment: **102**

Commencement Date: **May 25, 2017**

Your current fees are set forth below:

I. FEES DUE ONLY AT COMMENCEMENT	FEE
Community Fee (non-refundable)	\$1,000.00
Pet Fee (non-refundable)	\$500.00
Other: Pendant Key	\$75.00
Total	\$1,575.00

II. FEES RECURRING ON MONTHLY BASIS	FEE
A. Monthly Fee	\$2,500.00
B. Second Person Fee	\$1,250.00
C. Premium Parking Fee (if applicable)	\$100.00
D. Other: Cable	\$75.00
Total Monthly Fees (Add A through D)	\$3,925.00

III. ESTIMATED ADDITIONAL FEES OCCURRING ON MONTHLY BASIS	FEE
Select Services (Generally billed in arrears)	\$200.00
Total Select Service Fees (Estimate)	\$200.00

I agree to the above Schedule of Services and Rates effective June 1, 2017, and I understand and agree that the Community has a right to change these rates and/or change the services provided in accordance with the provisions of the Residency and Services Agreement.

First Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
--	------------	------

Second Resident (or Legal Representative) (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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For the Community	Title	Date
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Exhibit B

Authorization to Use and Disclose Information

In our efforts to enrich the lives of those we serve, ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence, , would like the opportunity to share your information with its affiliates and parent company, Brookdale Senior Living Inc. (“Brookdale”). These companies offer health care services, as well as various retirement options, that may benefit you. Brookdale has also developed associations with other companies to offer individuals and their families additional benefits like discounts, preferred access and other value-added services. For your privacy, we need your consent before sharing this information. If you would like to learn about these services and how they can assist you, please sign below.

By signing below, you agree to allow ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence to (a) provide your name, address, email, phone number and other contact information to Brookdale subsidiaries and third-party associations so they may reach out to you and (b) authorize Brookdale subsidiaries and third-party associations to send information about benefits to you and those involved in your care. Brookdale, its affiliates and its associations will not sell your information to any third party.

Uses and disclosures covered by this authorization may be made electronically, orally or on paper, such as through the mail. Signing this form is optional. Your treatment or payment for care will not be conditioned on whether you sign this form. Brookdale or its affiliates may receive remuneration in connection with your agreement to use and disclose your information as described in this form.

This authorization will remain in effect until one year after you (a) move out of a Brookdale affiliated community, (b) are discharged from receiving services from a Brookdale affiliated provider, or (c) the date you sign this authorization, whichever is applicable and the latter. You have the right to revoke this authorization at any time by notifying Brookdale in writing at 6737 W. Washington Street, Suite 2300, Milwaukee, WI 53214; Attn: Privacy Officer. Your revocation of this authorization will not be effective to the extent we have already relied upon this form (by using or disclosing information).

After your information is disclosed, it may not be governed by the federal HIPAA privacy rules and may be further disclosed by the recipient. You have the right to receive a copy of this form and to request to review and copy your information disclosed through this form.

_____/_____/_____
Signature of Individual or Legal Representative Date Test Smith
Individual’s Name

If signed by the Individual’s Legal Representative, complete the following:

Printed Name of Legal Representative: _____

Relationship to Individual and Authority of Legal Representative (e.g., health care power of attorney, guardian, other statutory authorization): _____



RESIDENCY AGREEMENT

This Agreement (“Agreement”) dated December 5, 2016 is made by and between ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the “Company,” “us,” “we” or “our”) and Test (“Resident,” “you” or “your”).

We operate the community located at 5800 Old Providence Rd., Charlotte, NC 28226 (the “Community”) which is licensed by the State of North Carolina as a/an Adult Care Home and residency in the Community has been requested by you or on your behalf. The terms and conditions of this Agreement are as follows:

I. SERVICES AND ACCOMMODATIONS.

A. **BASIC SERVICES.** We will provide you with the following Basic Services, which are included in the Basic Service Rate, subject to the terms of this Agreement:

- ◆ **Accommodations** – You have elected to live in the Suite described in Exhibit A. You are also entitled to use and enjoy with all other residents the common areas of the Community. You are to provide your own furnishings and personal property; however, we reserve the right to limit the number and type of furnishings/small appliances. You agree that you are responsible for the maintenance and repair of any personal belongings you bring to the Community.
- ◆ **Dining Services** – Unless otherwise noted in the Addendum to the Residency Agreement, we will furnish three meals daily. Snacks are available 24 hours a day.
- ◆ **Utility Service** – Unless otherwise noted in the Addendum to the Residency Agreement, the cost of gas, electric, heat, air conditioning water, basic cable, satellite or comparable television service is included. You are responsible for paying any other utility charges including, but not limited to, telephone, internet or premium cable charges.
- ◆ **Housekeeping Service** – Unless otherwise noted in the Addendum to the Residency Agreement, we will provide light housekeeping once a week.
- ◆ **Laundry and Linen Service** – We will launder your personal belongings and bed linens as set forth in the Addendum to the Residency Agreement.
- ◆ **Activities Program** – We will provide planned social and recreational programs.
- ◆ **Parking** – Each Suite (whether occupied by one or two Residents) will have access to shared and uncovered parking spaces. Covered parking may be available as set forth in the Addendum to the Residency Agreement.
- ◆ **Transportation** – We will make available scheduled routine transportation services as described in the Addendum to the Residency Agreement.
- ◆ **Staffing 24 hours a day** – Associates are available 24 hours a day, seven days a week.
- ◆ **Wellness Assessments** – We will provide limited periodic wellness assessments to help you monitor your physical health.

We will provide thirty (30) days written notice of any change in Basic Services.

B. PERSONAL SERVICE PLAN. Prior to moving in and periodically throughout your residency, we will use a personal service assessment to determine the personal services you require. The personal service assessment will be used to develop your Personal Service Plan. The results of the assessment and the cost of providing the additional personal services (the “Personal Service Rate”) will be shared with you. Your initial Personal Service Rate is set forth in Exhibit A.

If you qualify for Medicaid services, you may receive some or all of your personal services through Medicaid’s Personal Care Services (“PCS”) Program. Qualifying for Medicaid does not necessarily mean that you will qualify to receive Medicaid PCS or that the Medicaid PCS program will meet all of your personal service needs. If you are Medicaid eligible but Medicaid determines that you do not qualify for Medicaid PCS services or you only qualify for a limited number of Medicaid PCS services, the Community may determine, based on its personal services assessment, that you require personal services not provided by the Medicaid PCS program.

If the Community’s personal service assessment determines that personal services that are not covered by Medicaid are required, you will be responsible for the personal service charges for such uncovered services in accordance with the Personal Service Rate set forth in Exhibit A.

You understand that the Personal Service Rate for uncovered personal services can be implemented by the Community at any time after a personal service assessment has been provided and it has been determined by the Community that you require personal services that you are not eligible to receive under the Medicaid PCS program.

C. AVAILABLE SELECT AND THERAPEUTIC SERVICES. Select Services and Therapeutic Services are available to you at your request. Such additional services are not included in the Basic Service Rate or the Personal Service Rate. Where available, such services may include, but are not limited to guest meals, transportation beyond that which is included in the Basic Service Rate, transportation escort services, enhanced cable television, special events or certain clinical services. The available Select Services and Therapeutic Services as well as the associated prices are found on Exhibit X and Exhibit Y to this Agreement.

D. SERVICES NOT COVERED BY RESIDENCY AGREEMENT. In addition to any Select or Therapeutic Services you may receive, in some circumstances, you may need the services of other third party providers in order to continue to safely remain at the Community. An outside agency or individual will be permitted to provide these services or any related personal services only if we have given prior approval.

You are responsible for obtaining and paying for all third party provider services, whether provided by Company affiliates, our subcontractors, third party health care and medical providers, or others. These services may include, but are not limited to, pharmacy, therapy, podiatry, dentistry, ophthalmology, home health, hospice, private companion, beauty/barber or other health care services. These third party provider services are not included in the Basic Service Rate, Personal Service Rate or rates for Select Services and Therapeutic Services. Fees for such services will be billed to you directly by the third party service provider, unless otherwise agreed to by the parties. All third party service providers (including, but not limited to, health care service providers) must agree to adhere to our standards for outside providers prior to being permitted to provide services in the Community.

You may not hire our current associates to provide services in the Community. You may contract with former associates to perform any services at the Community only with our consent. We reserve the right to refuse entry to (1) former associates; (2) persons whose actions may be disruptive to the Community; or (3) persons whose actions may threaten the safety of any resident or associate.

II. YOUR RESPONSIBILITIES AND REPRESENTATIONS.

- A. CARE OF SUITE.** You agree that the Community and the Suite are in satisfactory, habitable condition and we have made no promise to decorate, alter or improve the Community or Suite unless otherwise provided in writing and attached as part of this Agreement. You agree to maintain the Suite and to leave the Suite upon termination of this Agreement in good condition, except for normal wear and tear. You agree to pay all damages, beyond normal wear and tear, which you (including your agent, employee, contractor, or other invitee) cause to our property. The Community may invoice you for the cost of such repairs.
- B. ALTERATIONS.** You may make reasonable alterations, additions or modifications to your Suite whether based on a disability or not, provided that: (1) you obtain prior approval from the Executive Director to make the specific alterations, additions, or modifications; (2) you contract for these changes prior to beginning alterations directly with us or with a contractor approved by us; and (3) you assume sole financial responsibility for these changes. All such changes must be in compliance with applicable safety and government codes and regulations. If you have a disability and need a reasonable modification (a structural change to afford you equal opportunity to use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. The cost of any alterations made by you shall be paid by you unless otherwise agreed to in writing. You agree that you will bear the cost of restoring your Suite to its original condition, reasonable wear and tear excepted, upon the termination of this Agreement, unless we specifically exempt you from this requirement in writing. We may enter and make any modifications or alterations to your Suite to meet the requirements of any applicable law.
- C. RIGHT OF ENTRY.** For your safety and comfort, our associates must be permitted to enter your Suite to provide services under the terms of this Agreement, to respond to emergencies, to make repairs and improvements, or if there is reasonable belief that your safety or the safety of others is in question or that our policies and procedures are being violated, as we deem necessary or advisable. Therefore, it is not permissible to change the locks or add additional locks to the entrance door to your Suite. When feasible, our associates will attempt to give you reasonable notice before entering your Suite.

We reserve the right to relocate you to a more appropriate Suite within the Community as required for your health or safety, or because the residents of a companion Suite are incompatible.

- D. HEALTH ASSESSMENT.** The Community will only admit and retain residents who meet the criteria established from time to time by §§ 131 D-2 of the North Carolina General Statutes and Chapter 13, Subchapter 13F, Title 10A of the North Carolina Administrative Code, for Adult Care Homes.

You agree that we may assess your health to create and update a Personal Service Plan and/or to determine whether you are appropriate to remain at the Community. Not more than thirty (30) days prior to the date of this Agreement, and at least annually thereafter or upon our request, you agree to undergo an examination by your physician (or other licensed provider as allowed by law). You agree to undergo examination by a particular specialist, at your cost, as we determine is warranted by your current physical or mental status. You will request the examiner to provide us with recommendations, including a statement attesting to the appropriateness of your continued placement. Based upon the assessment(s) and our judgment, we may determine your appropriateness to remain in the Community. You will request the examiner to perform any tests and complete any forms required by us or applicable law.

If you qualify for Medicaid and it is determined that an independent assessment by the Medicaid program or its contractor is required to determine whether you are eligible to receive Medicaid PCS services, you agree that the Medicaid agency or its contractors may assess your condition to determine if you qualify for the Medicaid PCS program. You agree to undergo an examination as required by the Medicaid program to receive such services as long as you are Medicaid eligible. Should the Medicaid program determine that you are not eligible to receive PCS services, the Community will conduct a health assessment as specified above to determine whether or not you meet the criteria established for continued admission as set forth in §131 D-2 of the North Carolina General Statutes in Chapter 13 Subchapter 13F and Chapter 13, Subchapter F Title 10A of the North Carolina Administrative Code.

- E. HEALTH CARE PROVIDER NOTIFICATION.** You authorize us to contact your legal representative/family, health care providers, and/or other persons listed in your records (1) if it is necessary in our judgment to advise them of your situation; (2) to arrange for required health care services and other assistance; or (3) in case of an emergency.

If your designated health care providers are unavailable, you authorize us to arrange for the services of other health care providers. You agree we may provide such persons with copies of your records, including, but not limited to, resident records, advance directives, living will, and the names of persons empowered to make health care decisions.

- F. SUBSTITUTE DECISION MAKERS/ADVANCE DIRECTIVES.** You will provide us with accurate, complete and current information about yourself, substitute decision-makers and health care providers, including but not limited to addresses and phone numbers, and your health care status and needs. You will provide us with copies of any power of attorney, guardianship, living will, or conservator documents, or other legal documents relating to the making of health or financial decisions or decision-makers. You authorize us to rely on the instructions of such designees or appointees or on the instructions found within such documents. You further agree to immediately notify us of changes relating to the information stated above.

In the event of hospitalization, you understand that form FL-2 or a patient transfer form must be provided to the Community by the hospital prior to readmission.

It is strongly suggested that you have advance directives in place in the event you become incapacitated. If you do not have such advance directives in place, you understand that a court may name a guardian upon application of any interested party (including the Company). Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, any costs associated therein shall be paid by you and we may invoice you for such costs.

G. MOTORIZED VEHICLES AND CARTS. Individual motorized vehicles such as electric scooters, wheelchairs, or carts and similar vehicles may be used, subject to the following:

1. Your ability to walk is substantially limited due to a disability;
2. Your operation of the vehicle does not pose a threat to the health and safety of yourself or others;
3. The vehicle is operated at a low speed setting; and
4. You agree to abide by our safety guidelines for the use of motorized vehicles on the premises, which may be modified from time to time.

Reasonable accommodations will be made to the rules, policies and practices (upon a showing of necessity) so long as the requested accommodation does not constitute a threat to the health or safety of you, the other residents, our associates or visitors.

You agree to pay for all damages to others or to the Community, which are caused by you or your motorized vehicle and that we may invoice you for such costs. You further understand and agree that we may, at our sole discretion, prohibit your further use of an electric scooter or similar vehicle at any time.

H. EXAMINATION OF RECORDS. You acknowledge that we are licensed by the State of North Carolina as an Adult Care Home. You understand that regulatory officials having jurisdiction over the Community may inspect your records as part of an evaluation of the Community. You have the right to review and access your health care records in accordance with the requirements of applicable law.

I. RULE AND REGULATION COMPLIANCE. You understand that the Community has shared common areas, and you agree to honor all rules of courtesy and respect for others. You agree to abide by and conform to our rules, regulations, handbook, policies and procedures as they now exist and as amended from time-to-time. If you have a disability and need a reasonable accommodation (a change in our rules or policies to equally use and enjoy your home), please contact the Executive Director and he/she will review our Reasonable Accommodation/Modification Request process with you. You understand that failure to abide by such policies may result in your discharge from the Community.

J. GUESTS. You have the right to associate with your friends and family during reasonable hours. Because the Community is a licensed building, overnight guests are generally not permitted in a resident's room. Limited exceptions may be granted by the Executive Director based upon the circumstances.

You acknowledge and understand that your guests are subject to our rules and regulations, and if your guests become disruptive to the operations of the Community and/or are verbally or physically abusive to residents, our associates or others, we may request that they leave the Community until their behavior is under control or may restrict their visitation. Where circumstances warrant, we may exclude such individuals from the Community.

K. RELEASE OF INFORMATION. We will keep your health, medical, personal and other information that identifies you (collectively, "Resident Data") confidential in compliance with applicable law. You agree that we may use and disclose Resident Data for purposes of treatment, to provide to you services covered by this Agreement (collectively "Services"), to obtain payment for our Services, in connection with our operations, including training, care management and quality assessment and improvement, to coordinate with any third party providers you select, and as otherwise permitted by law.

III. RATES.

A. **COMMUNITY FEE.** We require a one-time non-refundable Community Fee in an amount indicated in Exhibit A to be paid at the time this Agreement is signed. The Community Fee does not excuse you from financial responsibility for any damage caused to your Suite beyond normal wear and tear upon move-out.

B. **MONTHLY SERVICE RATE.**

1. **Rate.** You agree to pay the Basic Service Rate and, if applicable, the Personal Service Rate as indicated in Exhibit A (together the “Monthly Service Rate”).

If you are Medicaid eligible and it is determined that you do not qualify for the Medicaid PCS program, you agree to pay the Personal Services Rate if applicable as indicated in Exhibit A.

2. **Refund.** In accordance with Section IV, we will refund a prorated share of the Monthly Service Rate if this Agreement is terminated before the end of a month:

- a. following thirty (30) days written notice;
- b. because you require care that is not offered by us; or
- c. by reason of death.

Refunds will be prorated (using 30.5 days to calculate the Daily Rate) from the later of the termination date or the date by which you have vacated and all of your belongings are removed from Community. Unless prohibited by law, you agree we may offset such refunds by any amount due under the terms of this Agreement.

C. **ABSENCES.**

1. **Notice of Absence.** Except for an emergency medical absence, if you will be absent from the Community for any period of time, you must inform us of your plans prior to leaving and sign the Sign In/Sign Out Book upon exiting and re-entering the Community. We assume no responsibility or liability for your welfare during times that you are away from the Community.

2. **Fees during Absence.** If you are absent from the Community for any reason, such as, for a hospitalization, vacation, temporary nursing home care or rehabilitation, the Residency Agreement will remain effective and you will be charged the full Monthly Service Rate. If you provide written notice of your intent to terminate the Agreement pursuant to Section IV, termination will be effective and charges will cease the later of the end of any applicable notice period or the removal of all of your personal belongings.

D. **SELECT & THERAPEUTIC SERVICES.** In addition to the Monthly Service Rate, you agree to pay the established charges for any Select Services or Therapeutic Services provided to you by us.

E. **PAYMENT.** We will issue a monthly statement before the first day of the month itemizing the Monthly Service Rate for the upcoming month and, if any, charges incurred for Select Services and Therapeutic Services provided during the prior month. Payment for all charges shown on the statement is due on the first (1st) calendar day of each month. The first payment of the Monthly Service Rate is due prior to taking occupancy. If you move in after the first of the month, your first Monthly Service Rate will be prorated (using 30.5 days to calculate the Daily Rate).

We will charge a \$250.00 late fee if we have not received all fees when due. We will also charge a \$50.00 returned payment fee for each check or automatic withdrawal that is returned or denied for any reason. After two such occurrences, you agree to pay all amounts due by cashier's check or such other method specified by us. You also agree to pay interest on all outstanding amounts based upon the lesser of 1.5% per month or the highest rate permitted by law.

- F. **RATE CHANGES.** We will provide thirty (30) days written notice of any change in the rates or pricing method for Basic Services, Personal Services, Select Services and Therapeutic Services. We may offer or require a change in the Personal Service Plan when we determine additional services are requested or required. **The new Personal Service Rate resulting from a change in your Personal Service Plan is effective immediately after written notice is given.**

IV. TERM AND TERMINATION.

- A. **TERM.** This Agreement begins on the date set forth above and continues until terminated as provided below.
- B. **TERMINATION BY RESIDENT.** You may terminate this Agreement upon fourteen (14) days written notice to us. Termination occurs on the later of the end of the notice period or upon the removal of all of your personal belongings.
- C. **TERMINATION BY THE COMPANY.** We may terminate this Agreement, upon providing you thirty (30) days written notice, for any of the following events, as determined by us:
1. The discharge is necessary for your welfare and your needs cannot be met in the Community as documented by your physician, physician assistant or nurse practitioner.
 2. Your health has improved sufficiently so you no longer need the services provided by the Community as documented by your physician, physician assistant or nurse practitioner.
 3. The safety of other individuals in the Community is endangered.
 4. The health of other individuals in the Community is endangered as documented by a physician, physician assistant or nurse practitioner.
 5. Failure to pay the cost of services and accommodations by the payment due date after receiving written notice of warning of discharge for failure to pay.
 6. The discharge or transfer is mandated by state law.

We may, upon written notice to you, immediately terminate this Agreement, and transfer or discharge you for emergency medical or welfare reasons that would endanger the health and safety of yourself or others. If the emergency requires your immediate transfer, we will notify your legal representative as soon as practical. We will provide a written explanation for termination with less than thirty (30) days' notice.

- D. **TERMINATION BY EITHER PARTY.** Either party may terminate this Agreement immediately upon written notice in the event of your death or if you must be relocated due to your health. The Community may request a physician to certify in writing that based upon his/her examination, you must be relocated to facility which offers a higher level of care.

In the event of your death, your estate will be charged the Monthly Service Rate through the later of the seventh (7th) day after your death or the day on which all of your belongings are removed from the Community. If you must relocate due to your need for a higher level of care, you will be charged the Monthly Service Rate through the later of fourteen (14) days after the date of your written notice of termination or the day on which all of your belongings are removed from the Community.

- E. SERVICES PENDING TERMINATION.** You acknowledge and agree that, pending termination of the Agreement due to requiring services or staff not available in the Community, we may arrange for the provision of one-on-one care and you will pay for such care if we determine that such care is needed to protect your health or safety or the health or safety of others.
- F. COMMUNITY CEASES TO OPERATE.** If the Community's license is revoked or the Community otherwise ceases to operate, this Agreement shall terminate upon written notice from the Community on the date as stated in the notice. Any advance payment for services not received shall be refunded to the Resident.
- G. RESPONSIBILITIES UPON TERMINATION.** You will vacate premises, removing all belongings on or before the effective date of termination. If you fail to remove your belongings by the effective date of termination, you understand and agree that we may continue to charge you for the Basic Service Rate of your Suite, or have your belongings placed in storage at your cost. You further agree that we may donate any unclaimed property after forty-five (45) days. You will provide written notice of a forwarding address where you can be reached and receive mail. Termination will not release you or us from any liability or obligation to the other party under the terms of this Agreement.

V. AGREEMENT TO ARBITRATE.

Should any of sub-sections A & B provided below, or any part thereof, be deemed void or invalid, the validity of the remaining sub-sections, or parts thereof, will not be affected.

A. ARBITRATION PROCEEDINGS.

1. Any and all claims or controversies arising out of, or in **any** way relating to, this Agreement or any of your stays at the Community, excluding any action for involuntary transfer or discharge or eviction, and including disputes regarding interpretation, scope, enforceability, unconscionability, waiver, preemption and/or violability of this Agreement, whether arising out of State or Federal law, whether existing or arising in the future, whether for statutory, compensatory or punitive damages and whether sounding in breach of contract, tort or breach of statutory duties, irrespective of the basis for the duty or the legal theories upon which the claim is asserted, shall be submitted to binding arbitration, as provided below, and shall not be filed in a court of law. **The parties to this Agreement further understand that a judge and/or jury will not decide their case.**
2. The parties hereby expressly agree that this Arbitration Provision, the Residency Agreement and the Resident's stays at the Community substantially involve interstate commerce, and stipulate that the Federal Arbitration Act ("FAA") shall exclusively apply to the interpretation and enforcement of this Agreement, and shall preempt any inconsistent State law and shall not be reverse preempted by the McCarran-Ferguson Act; United States Code Title 15, Chapter 20, or other law. Any party who demands arbitration must do so for all claims or controversies that are known, or reasonably

should have been known, by the date of the demand for arbitration, and if learned of during the course of the arbitration proceeding shall amend the claims or controversies to reflect the same. All current damages and reasonably foreseeable damages arising out of such claims or controversies shall also be incorporated into the initial demand or amendment thereto.

3. A demand for Arbitration by you, your legal representative, a person or organization acting on your behalf with your consent, or the personal representative of your estate (collectively "Resident Party") shall be made in writing and submitted to Timothy Cesar, Brookdale Senior Living Inc., 6737 W. Washington St. #2300, Milwaukee, WI 53214, via certified mail, return receipt requested. Demand for Arbitration by us shall be made in writing and submitted to you or your agent, representative, successor or assign and/or your legal representative via certified mail, return receipt requested.
4. The arbitration proceedings shall take place in the county in which the Community is located, unless agreed to otherwise by mutual consent of the parties.
5. The arbitration panel shall be composed of one (1) arbitrator. Subject to the requirements of section A.6, the parties shall agree upon an arbitrator that must be a member of the North Carolina Bar with at least ten (10) years of experience as an attorney. If the parties cannot reach an agreement on an arbitrator within twenty (20) days of receipt of the Demand for Arbitration, then each party will select an arbitrator. These arbitrators will act only for the purpose of appointing a sole arbitrator to hear the case, subject to the criteria above. If either party fails to select their arbitrator within the (20) days mentioned above, they effectively forfeit their right to choose an arbitrator.
6. The arbitrator shall be unbiased of all parties, witnesses, and legal counsel. No past or present officer, director, affiliate, subsidiary, or employee of a party, witness, or legal counsel may serve as an arbitrator in the proceeding.
7. Discovery in the arbitration proceeding shall be governed by the North Carolina Rules of Civil Procedure. However, discovery may be modified by agreement of the parties.
8. The arbitrator shall designate a time and place within the county in which the Community is located, for the arbitration hearing and shall provide thirty (30) days' notice to the parties of the arbitration hearing.
9. The arbitrator shall apply the North Carolina Rules of Evidence and North Carolina Rules of Civil Procedure in the arbitration proceeding except where otherwise stated in this Agreement. Also, the arbitrator shall apply, and the arbitration decision shall be consistent with, North Carolina law except as otherwise stated in this Arbitration Provision.
10. The arbitration decision should be signed by the arbitrator and delivered to the parties and their counsel within thirty (30) days following the conclusion of the arbitration. The decision shall set forth in detail the arbitrator's findings of fact and conclusions of law.
11. The arbitrator's decision shall be final and binding and such decision may only be vacated or modified as allowed by the Federal Arbitration Act.
12. The arbitrator's fees and costs associated with the arbitration shall be divided equally among the parties. The parties shall bear their own attorneys' fees and costs and hereby expressly waive any right to recover attorney fees or costs, actual or statutory.
13. The arbitration proceeding shall remain confidential in all respects, including the Demand for Arbitration, all arbitration filings, deposition transcripts, documents

produced or obtained in discovery, or other material provided by and exchanged between the parties and the arbitrator's findings of fact and conclusions of law. Following receipt of the arbitrator's decision, each party agrees to return to the producing party within thirty (30) days the original and all copies of documents exchanged in discovery and at the arbitration hearing, except those documents required to be retained by counsel pursuant to law. Further, the parties to the arbitration also agree not to discuss the amount of the arbitration award or any settlement, the names of the parties, or name/location of the Community except as required by law.

14. This Arbitration Provision binds third parties not signatories to this Arbitration Provision, including any spouse, children, heir, representatives, agents, executors, administrators, successors, family members, or other persons claiming through the Resident, or persons claiming through the Resident's estate, whether such third parties make a claim in a representative capacity or in a personal capacity. Any claims or grievances against the Community or the Community's corporate parent, subsidiaries, affiliates, employees, officers or directors shall also be subject to and resolved in accordance with this Arbitration Provision.

15. The terms of this Arbitration Provision are severable.

16. The Arbitration Provision shall survive your death.

B. BENEFITS OF ARBITRATION. The parties' decision to select arbitration is supported by the potential cost-effectiveness and time-savings offered by selecting arbitration, which may avoid the expense and delay of judicial resolution in the court system. The parties' decision to select arbitration is supported by the potential benefit of preserving the availability, viability, and insurability of a long term care company for the elderly and disabled in North Carolina, by limiting such company's exposure to liability. With this Agreement, we are better able to offer our services and accommodations at a rate that is more affordable to you. In terms of the potential time-savings offered by selecting arbitration, the parties recognize that selecting a quick method of resolution is potentially to a resident's advantage.

You and/or your legal representative understand that other long term care companies' Agreements may not contain an arbitration provision. The parties agree that the reasons stated above are proper consideration for the acceptance of the Arbitration Provision. **The undersigned acknowledges that he or she has been encouraged to discuss this Agreement with an attorney.**

The parties to this Agreement further understand that a judge and/or a jury will not decide their case.

VI. MISCELLANEOUS.

A. WAIVER OF TRIAL BY JURY. If a court determines that the Arbitration Provision provided above is invalid, the parties express their desire to waive a jury trial and resolve any claims in the appropriate court solely before a judge.

B. NON-DISCRIMINATION. We operate on a non-discriminatory basis and afford equal treatment and access to services to eligible persons regardless of race, religion, color, national origin, sex, disability or any other category protected by applicable law. The Company and the Community agree to comply with State regulations requiring the completion of DSS Form-1464 as an assurance of compliance with Title VI of the Civil

Rights Act. The Company and the Community acknowledge that failure to comply with this regulation will jeopardize the Company's ability to receive supportive services from the County Department of Social Services and State-County Special Assistance for Adults.

C. RISK AGREEMENT. You are responsible for your personal, financial and health care decisions. You are also responsible for maintaining health, personal property, liability, automobile (if applicable), and other insurance coverages in adequate amounts. You agree to obtain insurance in an amount adequate to cover your personal property and your general liability. You acknowledge that we do not insure your person or property. You understand and agree that:

1. We may encourage you to participate in community, leisure, and social activities and to maintain an appropriate level of independence in activities of daily living, as well as your personal and financial affairs;
2. Independent activities, responsibility for personal, financial, and health care decisions, and lifestyle and care preferences may involve risks of personal injury and/or property damage or loss;
3. Throughout the Community, there may be public balconies and/or a balcony in your Apartment. If you choose to use such balcony, you do so at your own risk. We are not responsible for any injury that may result from use of a balcony. We are also not responsible for damage or loss of any property used or placed on a balcony;
4. The standard of service for an assisted living community does not include one-on-one care, assistance or supervision, e.g., one resident assistant for each Resident, or immediate response to non-emergent needs. There may be short and long periods of time in which you will be left alone, unsupervised such as while watching television, listening to music, reading, and sleeping at night;
5. We make no representations or guarantees that our associates can prevent falls. We do not represent or guarantee that your health condition will not change or deteriorate;
6. We make no representations or guarantees that our associates can prevent the onset of skin break down or the worsening of existing skin break down;
7. Our services may not meet all of your personal, social, or health care needs and we will attempt to assist you in arranging for such services which are not included in this Agreement;
8. Many residents suffer from cognitive impairment, including Alzheimer's disease and dementia. This condition can cause unexpected behavior such as wandering, forgetfulness, agitation towards others and confusion. We make no representations or guarantees that we can predict the behavior of our residents. Therefore, we also make no representations or guarantees that we can always prevent a resident from wandering or attempting to wander from the Community, entering into a private area, misplacing or losing items or engaging in physical contact with another resident;
9. We make no representations or guarantees that we can prevent the loss of personal items, including but not limited to clothing, jewelry, dentures, hearing aides or other medical equipment. We will not be responsible for the loss of such items. We make no representations or guarantees that we can prevent theft or other criminal acts perpetrated by another resident or person; therefore, we recommend that valuables such as jewelry and large sums of money, not be kept at the Community. If you choose to bring in

valuables, you do so at your own risk and we will not be held responsible for any theft or loss of such items;

10. Due to state regulations and fire code, we may not lock our exterior doors against exiting. Therefore, we cannot guarantee that a resident will not wander from the Community. Some buildings have exterior doors that are alarmed with a delayed egress feature and our systems are designed to alert our associates to respond and assist a resident if they wander from the building.

You understand and agree to assume the risks inherent in this Agreement. You agree to hold us, our associates and agents harmless for any damages, injury or other loss resulting from: (1) reasonable acts or omissions made in good faith; (2) action by a third party, fire, water, theft or the elements; or (3) loss of personal property.

- D. PETS.** The Community's pet policy is described in the Addendum to the Residency Agreement.
- E. SMOKING.** Except as otherwise set forth in the Addendum to the Residency Agreement, smoking is not permitted in any part of the Community.
- F. WEAPONS.** Weapons, as defined by us, are not allowed in the Community or on Community property. This includes but is not limited to firearms, explosive materials, ammunition, and collectible or antique weapons.
- G. NO TENANCY INTEREST.** You have none of the rights of a tenant under this Agreement, subject to applicable state law.
- H. ASSIGNMENT.** This Agreement is not assignable without our prior written consent. Our rights and obligations may be assigned to any person or entity which will be responsible to ensure our obligations under this Agreement are satisfied in full from the date of notification. We may engage another person or entity to perform any or all of the services under this Agreement.
- I. AMENDMENTS.** This Agreement and any written amendments constitute the entire agreement between the parties and supersede all prior and contemporaneous discussions, representations, correspondence, and agreements whether oral or written. Except for our right to modify fees, rates and charges, amend services provided and establish and modify reasonable operating procedures and rules for the general welfare and safety of the residents, this Agreement may be amended only in writing signed by both parties.
- J. SEVERANCE.** Should any part of this Agreement be invalid, the validity of the other parts of this Agreement will not be affected.
- K. FINANCIAL RESPONSIBILITY.** You have designated a Guarantor, who has agreed to the terms of the attached Statement of Financial Responsibility.
- L. SUBORDINATION.** This Agreement and the parties' rights hereunder are subordinate to any lease, mortgage or deed of trust placed upon the Community, but you may remain in your Suite so long as you comply with the provision of this Agreement.
- M. REPRESENTATION AND WARRANTY.** By executing this Agreement you represent and warrant that all representations made by you or on your behalf, whether written or verbal, with respect to your application for admission to the Community were true when made. You understand that we rely upon the truthfulness of this information in making our decision to enter into this Agreement. Your application forms, including personal data forms, statement of financial condition (if applicable), health history and medical reports

submitted by you or on your behalf to us, are incorporated by reference into this Agreement and made an express part of it. You understand and agree that any material misrepresentation or omission made by you or on your behalf in connection with these documents shall make this Agreement voidable at our option, to the extent permitted by law.

- N. CHOICE.** You have a choice of providers for private sitters, therapy, rehabilitation, home health, hospice and other health care services. As part of the complement of services offered by the Company and its affiliates, therapy, rehabilitation, home health, hospice or other services may be available at the Community through Company affiliates. If you require such services, Community associates will assist you in obtaining such services from Company affiliates or another service provider of your choice.
- O. OBLIGATORY INFORMATION.** You agree to provide accurate, complete and current information about yourself and about any emergency contact, including but not limited to addresses, phone numbers, and email address. You understand that you must promptly notify us of changes to the information stated above. If you do not have advance directives in place, you understand that a court may appoint a guardian to make decisions on your behalf if you are no longer able to do so. Neither we nor any of our associates or agents may be your guardian. If it is necessary for us to petition the court for appointment of a guardian, you agree to pay any costs associated therein.
- P. ASSIGNMENT OF BENEFITS.** To the extent that the Community participates in a government payor program, long term care insurance program or other insurance program (“Third Party Payor”) of which you are a beneficiary, you authorize us to disclose any medical or administrative information and request payment. You certify that the information given in applying for payment from such Third Party Payor is correct. You authorize release of all medical and administrative records required to act on this request and request that payment of authorized benefits be made on your behalf. You authorize us to disclose any medical or administrative information required in the processing of applications for financial coverage for services rendered. To the extent permitted by your Third Party Payor, you authorize direct payment of all benefits to us.
- Q. COUNTERPARTS.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.
- R. NOTICES.** Notices will be written and given by personal delivery or mailing by regular mail, postage pre-paid to the following or such other persons or places as the parties may notify each other. Notices shall be deemed given based upon the date personally delivered or upon the date postmarked.

Company:
Executive Director at Community
(At the Community)

Resident:
(At the Community)

Legal Representative/Responsible Party:
(as noted below)

<p>We believe it is important to disclose all services and fees to the best of our ability and in accordance with the law. We recommend that you consult with legal counsel to ensure understanding of this Agreement before signing.</p>
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BY THEIR SIGNATURES, the parties or their representatives have executed this Agreement.

Resident/Legal Representative (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
---	------------	------

For Company	Title	Date
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LEGAL REPRESENTATIVE/RESPONSIBLE PARTY ADDRESS:

Name: Test Test

Address: Test Test, NC 54656

Phone Nos.: 464-654-6546

Email:

OTHER RELATED MATERIALS:

1. Resident Bill of Rights
2. Community Handbook
3. Emergency Evacuation Plan
4. Admissions Package
5. Medical Records Release (if additional permission is required under state law or necessary to address a use or disclosure not covered by Section I(K))
6. Personal Service Assessment
7. Personalized Service Plan

ATTACHMENTS INCLUDED

Addendum for Community-Specific Basic Services and Operating Policies

Exhibit A - Schedule of Services and Rates

Exhibit B - Statement of Financial Responsibility

Exhibit C - Pharmacy Services Agreement

Exhibit D – Authorization to Use and Disclose Information

ADDITIONAL EXHIBITS TO ATTACH AS PART OF THE AGREEMENT:

- X. Select Services List
- Y. Therapeutic Services List
- Z. Assessment Price Schedule

**EXHIBIT A
SCHEDULE OF SERVICES AND RATES**

Resident Test
Suite Type and Number 106

COMMUNITY FEE (Prior to Move-in) \$1,000.00
SPECIAL ASSISTANCE/MEDICAID \$

If your Special Assistance/Medicaid application is denied, your Basic Service Rate will adjust to the then current Basic Service Rate for such Suite. In addition, you will be charged a Personal Service Rate in accordance with the terms and provisions of the Residency Agreement.

BASIC SERVICE RATE \$5,000.00
(Check below if applicable)

The Basic Service Rate above is the Basic Service Rate for a Companion Suite. If the Companion Suite converts to single occupancy, the Basic Service Rate will adjust to the then current single occupancy Basic Service Rate for such Suite.

PERSONAL SERVICE RATE \$
(The current Personal Service Price Schedule is attached as Exhibit Z)
(See attached Personal Service Rate Report)

MONTHLY SERVICE RATE \$5,000.00
(Add Basic Service Rate and Personal Service Rate)

SELECT SERVICES AND THERAPEUTIC SERVICES \$0.00*
(The Select Service List and Therapeutic Services List are attached as Exhibits X and Y)
*Amount varies based upon monthly usage.

I acknowledge receipt of Exhibits X, Y and Z and agree to the above Schedule of Services and Rates to commence as of December 5, 2016. I understand and agree that the Company has the right to change these rates and/or change the services provided in accordance with the provisions of the Residency Agreement.

Resident/Legal Representative	Print Name	Date
<small>(If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)</small>		

For Company	Title	Date
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EXHIBIT B
STATEMENT OF FINANCIAL RESPONSIBILITY

("Guarantor" or "you") and ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (the "Company," "us," "we" or "our"), agree as follows:

The Resident named in the attached Residency Agreement desires to live at the Community and we are willing to enter into the Residency Agreement if the Resident has an individual who is willing to fulfill the conditions of this Statement of Financial Responsibility; and

In consideration for our accepting the Resident into the Community, you agree to fulfill the provisions of this Statement of Financial Responsibility, if and as necessary.

Therefore, in consideration of the mutual covenants contained in this Statement of Financial Responsibility, the parties agree as follows:

I. PERSONAL ASSISTANCE. In the event the condition of the Resident requires such assistance, and upon our request, you will assist Resident or legally responsible person, as necessary by:

- A. Participating with our associates in evaluating Resident's needs and in planning and implementing an appropriate plan for Resident's care;
- B. Maintaining Resident's welfare and fulfilling Resident's obligations under the Residency Agreement;
- C. Relocating Resident following termination and removing the Resident's property;
- D. Transferring Resident to a hospital, nursing home, or other facility in the event that Resident requires care we do not offer;
- E. Making necessary arrangements for funeral services and burial in the event of death.

II. FINANCIAL RESPONSIBILITY. If Resident fails to make payments due to us under the Residency Agreement, you agree to pay us such amounts within thirty (30) days of receiving written notice of nonpayment.

III. REVIEW OF RESIDENCY AGREEMENT. You acknowledge that you have received and reviewed a copy of the Residency Agreement, and have had an opportunity to ask questions.

BY THEIR SIGNATURES, the parties have executed this Agreement to be effective as of December 5, 2016.

Guarantor (Should be signed by someone who is not the Resident)	Social Security No.	D.L. No.	Date
--	---------------------	----------	------

For the Company	Title	Date
-----------------	-------	------

SEND NOTICES TO GUARANTOR AT:

Address: _____ , _____

Home and Work Phone Nos.: _____

Cell Phone No.: _____

Email Address: _____

Exhibit C
Pharmacy Services Agreement

We work closely with pharmacy providers to meet the needs of our residents. Preferred Pharmacy providers are chosen based upon their ability to provide services to our residents to enhance their health and wellness. Important services include:

- Medication packaging that meets our safety standards
- Ongoing medication regimen reviews to include potential negative drug or allergic interactions
- Recommending therapeutic substitutions and offering generic substitutions when appropriate
- Alerts for Physicians and our Associates when there is duplication of prescriptions
- Accept most insurance plans and will bill you directly*
- Routine (daily) and emergency delivery 24-hours a day, 7 days a week.

Pharmerica E is our Preferred Provider for pharmacy services (“Preferred Provider”). Our Preferred Provider strives to have competitive prices and allows us to use one distribution system within our community.

Participation with our community’s Preferred Provider is strongly encouraged. Should you choose not to use the community’s pharmacy provider, you may incur fees as set forth in Exhibit X:

- Non Preferred Pharmacy Fee (additional administrative oversight required)
- Non-Standard Packaged Medications Fee (additional administrative oversight required) if the pharmacy is unable to provide medications in a unit dose packaging system

You also assume responsibility for the following:

- Medications packaged in a unit dose packaging system to meet our medication management standards
- Ordering, re-ordering and pick up of medications

If medications are not delivered within two days prior to their depletion, the community will reorder medications from the Preferred Provider.

MY SIGNATURE BELOW INDICATES THAT I HAVE READ, UNDERSTAND AND AGREE TO ABIDE BY THE TERMS OF THIS PHARMACY SERVICE AGREEMENT.

Resident/Legal Representative (If Legal Representative signs, indicate legal authority (e.g. POA, Conservator, Guardian, etc.) on signature line)	Print Name	Date
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*Some prescribed medications may not be covered by your insurance or Med D plan. Payment of these medication charges is the responsibility of the resident. Rev. 3/22/2016



Exhibit D

Authorization to Use and Disclose Information

In our efforts to enrich the lives of those we serve, ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence would like the opportunity to share your information with its affiliates and parent company, Brookdale Senior Living Inc. ("Brookdale"). These companies offer health care services, as well as various retirement options, that may benefit you. Brookdale has also developed associations with other companies to offer individuals and their families additional benefits like discounts, preferred access and other value-added services. For your privacy, we need your consent before sharing this information. If you would like to learn about these services and how they can assist you, please sign below.

By signing below, you agree to allow ARCLP - Charlotte, LLC d/b/a, Brookdale Carriage Club Providence to (a) provide your name, address, email, phone number and other contact information to Brookdale subsidiaries and third-party associations so they may reach out to you and (b) authorize Brookdale subsidiaries and third-party associations to send information about benefits to you and those involved in your care. Brookdale, its affiliates and its associations will not sell your information to any third party.

Uses and disclosures covered by this authorization may be made electronically, orally or on paper, such as through the mail. Signing this form is optional. Your treatment or payment for care will not be conditioned on whether you sign this form. Brookdale or its affiliates may receive remuneration in connection with your agreement to use and disclose your information as described in this form.

This authorization will remain in effect until one year after you (a) move out of a Brookdale affiliated community, (b) are discharged from receiving services from a Brookdale affiliated provider, or (c) the date you sign this authorization, whichever is applicable and the latter. You have the right to revoke this authorization at any time by notifying Brookdale in writing at 6737 W. Washington Street, Suite 2300, Milwaukee, WI 53214; Attn: Privacy Officer. Your revocation of this authorization will not be effective to the extent we have already relied upon this form (by using or disclosing information).

After your information is disclosed, it may not be governed by the federal HIPAA privacy rules and may be further disclosed by the recipient. You have the right to receive a copy of this form and to request to review and copy your information disclosed through this form.

_____/_____/_____ Test
Signature of Individual or Legal Representative Date Individual's Name

If signed by the Individual's Legal Representative, complete the following:

Printed Name of Legal Representative: _____
Relationship to Individual and Authority of Legal Representative (e.g., health care power of attorney, guardian, other statutory authorization): _____

ADDENDUM TO THE RESIDENCY AGREEMENT BASIC SERVICES

THIS ADDENDUM TO THE RESIDENCY AGREEMENT (the “Addendum”), dated December 5, 2016, is made between Test (“Resident,” “your” or “you”) and ARCLP - Charlotte, LLC d/b/a Brookdale Carriage Club Providence (“Company,” “we” or “us”) and modifies and is made part of the Residency Agreement dated as of the date hereof (“Residency Agreement”).

1. **Utility Service.** You are responsible for paying for any utilities which are noted below as “Not Included” in the Basic Service Rate.

Utility	Included	Not Included
Gas and Electric	X	
Heat	X	
Air Conditioning	X	
Water	X	
Basic Cable/Satellite		X
Premium Cable Channels		X
Telephone		X

2. **Dining Services.** We will provide five (5) meals less than there are days in each month (lunch and/or dinner). Meals and meal delivery are available for an additional charge as listed on Exhibit X. The meals served are not designed for any specific diet or dietary restrictions.
3. **Housekeeping Services.** We will provide light housekeeping once per week.
4. **Laundry and Linen Service.** Personal laundry service and any additional laundry service is available for an additional charge as listed on Exhibit X.
5. **Parking.** You may have access to an unreserved parking space on a first-come, first-serve basis. Subject to availability, you may rent a garage parking space for an additional fee. Parking is available provided that you (a) own a car that you wish to park, (b) maintain a current valid driver's license, registration and insurance, and (c) agree to execute a Parking Rider, which is available from the Executive Director.
6. **Transportation.** We will make available scheduled transportation to neighboring shopping centers, medical facilities and religious facilities, to a maximum distance of seven (7) miles from the community. The transportation schedule is available upon request. Transportation schedules are subject to modification by us in our sole discretion. To the extent that transportation is provided to other locations, including certain group trips, we may charge you an additional fee if you choose to participate.

All other transportation costs, including taxi and ambulance charges, are your responsibility.

7. **Pets.**

8. **Smoking.**

9. **Amendment.** Except as otherwise amended by this Addendum, the terms and provisions of the Residency Agreement shall remain in full force and effect. Any term not otherwise defined in this Addendum shall have the meaning ascribed to such term in the Residency Agreement.

BY THEIR SIGNATURES, the parties or their representatives have executed this Addendum.

Resident/Legal Representative	Date
-------------------------------	------

For Company	Title	Date
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Exhibit X - Select Services List

Service	Per Occurrence Price	Monthly Recurring Price
Dining - Guest Meal - Dinner	\$14	
Dining - Guest Meals - Additional	\$6	
Dining - Guest Meals - Lunch	\$8	
Dining - Guest Meals - Sunday buffet/Special Events (charge may vary per event)	\$17	
Dining - Room/Tray Service - per meal charge	\$4	---
Incontinence Products - Personal Solutions	See price schedule for prices & options	
Laundry - Additional (Included in Basic Service Rate: Once per week for personal and/or linens)	N/A	N/A
Medication - Preparation of Non-Standard Packaged Medications (Includes cost of Non-Preferred Pharmacy)	N/A	N/A
Medication - Use of Non-Preferred Pharmacy	N/A	N/A
Transportation	\$14 per trip	---
Cable Television (If not included in the Basic Service Rate)		\$17
Cable Television (If not included in the Basic Service Rate)		\$39
Cable Television (If not included in the Basic Service Rate)		
Companion - Appointment & Shopping (Does not include transportation)	\$23 per hour	N/A
Housekeeping - Additional (Included in Basic Service Fee: Once per week)		
Housekeeping - Additional (Included in Basic Service Fee: Once per week)	----	---
Housekeeping - Additional (Included in Basic Service Fee: Once per week)	N/A	N/A
Other:		

Exhibit Y - Therapeutic Services List

Service	Per Occurrence Price	Monthly Recurring Price
Dressing & Grooming - Short-Term Cast, Splint or Brace Care	\$19 per day	N/A
Dressing & Grooming - Prescription Compression Stockings	\$6	\$287
Medication - Prescription Injectable Medication (e.g. B12; not insulin)	\$17	N/A
Showering & Bathing - Whirlpool	\$31	N/A
Skin & Wound Care - Dressing Change for 1 Stage I or II Wound or Closed Surgical Wound/Stasis Ulcer	N/A	\$1,035
Skin & Wound Care - Dressing Change for 2 or more Stage I or II Wound or Closed Surgical Wound/Stasis Ulcer	N/A	\$2,066
Skin & Wound Care - Dressing Change for Skin Tear	\$6	N/A
Skin & Wound Care -Skin Tear		

Services on Exhibits X and Y are in addition to the Basic Service Rate or Personal Service Rate. Depending on licensure requirements and available staffing, not all services listed may be available at the community. Contact the Executive Director to verify if a listed service is available or for more information about other services that may be available.

Exhibit Y - Therapeutic Services List

Service	Per Occurrence Price	Monthly Recurring Price
Nutrition - Physician Ordered Nutritional Monitoring	\$25 per day	N/A
T.B. Skin Test	\$17 per injection	N/A
Telephonic Pacemaker Testing - 1/month	N/A	\$26
Other:		

Services on Exhibits X and Y are in addition to the Basic Service Rate or Personal Service Rate.
Depending on licensure requirements and available staffing, not all services listed may be available at the community.
Contact the Executive Director to verify if a listed service is available or for more information about other services that may be available.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

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

Commission File Number 001-32641

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

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

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

(Registrant's telephone number including area code)

(615) 221-2250

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1.7 billion. The market value calculation was determined using a per share price of \$9.09, the price at which the registrant's common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation only, shares held by non-affiliates excludes only those shares beneficially owned by the registrant's executive officers, directors and stockholders owning 10% or more of the Company's outstanding common stock.

As of February 12, 2019, 186,599,616 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders, or an amendment to this Form 10-K, to be filed with the SEC within 120 days of December 31, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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BROOKDALE SENIOR LIVING INC.

FORM 10-K

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

Certain statements in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "could," "would," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "believe," "project," "predict," "continue," "plan," "target" or other similar words or expressions. Although these forward looking statements are based on assumptions and expectations that we believe are reasonable, we can give no assurance that our assumptions or expectations will be attained and actual results and performance could differ materially from those projected. Factors which could have a material adverse effect on our operations and future prospects or which could cause events or circumstances to differ from the forward-looking statements include, but are not limited to, events which adversely affect the ability of seniors to afford our resident fees and entrance fees, including downturns in the economy, national or local housing markets, consumer confidence or the equity markets and unemployment among family members; changes in reimbursement rates, methods or timing under governmental reimbursement programs including the Medicare and Medicaid programs; the impact of ongoing healthcare reform efforts; the effects of continued new senior housing construction and development, oversupply and increased competition; disruptions in the financial markets that affect our ability to obtain financing or extend or refinance debt as it matures and our financing costs; the risks associated with current global economic conditions and general economic factors such as inflation, the consumer price index, commodity costs, fuel and other energy costs, interest rates and tax rates; our ability to generate sufficient cash flow to cover required interest and long-term lease payments and to fund our planned capital projects; the effect of our indebtedness and long-term leases on our liquidity; the effect of our non-compliance with any of our debt or lease agreements (including the financial covenants contained therein), including the risk of lenders or lessors declaring a cross default in the event of our non-compliance with any such agreements and the risk of loss of our property securing leases and indebtedness due to any resulting lease terminations and foreclosure actions; increased competition for or a shortage of personnel, wage pressures resulting from increased competition, low unemployment levels, minimum wage increases and changes in overtime laws, and union activity; failure to maintain the security and functionality of our information systems or to prevent a cybersecurity attack or breach; our ability to complete pending or expected disposition or other transactions on agreed upon terms or at all, including in respect of the satisfaction of closing conditions, the risk that regulatory approvals are not obtained or are subject to unanticipated conditions, and uncertainties as to the timing of closing, and our ability to identify and pursue any such opportunities in the future; our ability to obtain additional capital on terms acceptable to us; our ability to complete our capital expenditures in accordance with our plans; our ability to identify and pursue development, investment and acquisition opportunities and our ability to successfully integrate acquisitions; competition for the acquisition of assets; delays in obtaining regulatory approvals; risks associated with the lifecare benefits offered to residents of certain of our entrance fee CCRCs; terminations, early or otherwise, or non-renewal of management agreements; conditions of housing markets, regulatory changes and acts of nature in geographic areas where we are concentrated; terminations of our resident agreements and vacancies in the living spaces we lease; departures of key officers and potential disruption caused by changes in management; risks related to the implementation of our strategy, including initiatives undertaken to execute on our strategic priorities and their effect on our results; actions of activist stockholders; market conditions and capital allocation decisions that may influence our determination from time to time whether to purchase any shares under our existing share repurchase program and our ability to fund any repurchases; our ability to maintain consistent quality control; a decrease in the overall demand for senior housing; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; costs to respond to, and adverse determinations resulting from, government reviews, audits and investigations; unanticipated costs to comply with legislative or regulatory developments; as well as other risks detailed from time to time in our filings with the Securities and Exchange Commission, including those set forth under "Item 1A. Risk Factors" contained in this Annual Report on Form 10-K. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in such SEC filings. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this Annual Report on Form 10-K. We cannot guarantee future results, levels of activity, performance or achievements, and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained in this Annual Report on Form 10-K to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

PART I

Item 1. Business.

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

Our Business

As of December 31, 2018, we are the largest operator of senior living communities in the United States based on total capacity, with 892 communities in 45 states and the ability to serve approximately 84,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. We operate and manage independent living, assisted living, memory care and continuing care retirement communities ("CCRCs"). We also offer a range of home health, hospice and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities.

We believe that we operate in the most attractive sectors of the senior living industry, and our goal is to be the first choice in senior living by being the nation's most trusted and effective senior living provider and employer. With our range of community and service offerings, we believe that we are positioned to take advantage of favorable demographic trends over time. Our community and service offerings combine housing with hospitality and healthcare services. Our senior living communities offer residents a supportive home-like setting, assistance with activities of daily living ("ADL") such as eating, bathing, dressing, toileting and transferring/walking and, in certain communities, licensed skilled nursing services. We also provide home health, hospice and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities. By providing residents with a range of service options as their needs change, we provide greater continuity of care, enabling seniors to age-in-place, which we believe enables them to maintain residency with us for a longer period of time. The ability of residents to age-in-place is also beneficial to our residents and their families who are concerned with care decisions for their elderly relatives.

Strategy

Our strategy is to win locally by providing choices for high quality care and personalized service by caring associates while leveraging our industry-leading scale and experience. We believe that successfully executing on our strategy will improve our operations and provide attractive long-term returns to our stockholders. Our strategy is focused on three priorities:

- *Associates.* Brookdale's culture is based on servant leadership, and our associates are the key to attracting and caring for residents and patients and improving our operations. Through this strategic priority, we intend to attract, engage, develop and retain the best associates by maintaining a compelling value proposition in the areas of compensation, leadership, career growth and meaningful work. We continue to execute on our three-year plan initiated in 2017 to invest above the industry to improve our associate total rewards program and our performance management, training and development program for our community leaders and staff. We believe engaged associates lead to an enhanced resident experience and lower turnover, leading to improved operations.
- *Residents, Patients and Their Families.* Brookdale continues to be driven by its mission to enrich the lives of those we serve with compassion, respect, excellence and integrity. We believe that earning the trust of our residents, patients and their families will allow us to build relationships that create passionate advocates and generate referrals. Through this strategic priority, we intend to provide excellent customer service and expand referral development programs in order to earn the trust of our customers and the communities in which we operate and ultimately increase our move-ins and reduce our controllable move-outs.
- *Winning Locally and Leveraging Scale Effectively.* We intend to win locally while also leveraging our scale. With this priority, we are committed to completing our community-level capital expenditures as planned, maintaining the quality of our communities and their operations, and aligning our sales, marketing and operations teams to drive top line performance. We also are executing on plans to improve our sales process, to prioritize communities with the most opportunities for improvements and to ensure that our communities are ready for new competition.

In the near term, we plan to focus on our operations improvement and the expansion of our healthcare services to residents and seniors living outside of our communities. We also plan to make significant additional near-term investments in our communities, including increased spend attributable to major building infrastructure projects, in order to ensure that our communities are in appropriate physical condition to support our strategy and to protect the value of our community portfolio. We also plan to complete our remaining real estate transactions announced in 2018. This plan includes the terminations of management arrangements on

communities that we previously leased or managed on behalf of former unconsolidated ventures and exercising our options to cause terminations of our triple-net lease obligations on communities with annual base rent of up to \$35 million. We will also continue to invest in our Program Max initiative through which we expand, renovate, reposition or redevelop selected existing senior living communities.

Over the longer term, we plan to further invest for growth and opportunistically return capital to stockholders while maintaining a strong balance sheet. We plan to explore additional products and services that we may offer to our residents and, where opportunities arise, pursue development, investment and acquisition opportunities such as selective acquisitions of senior living communities and operating companies. Any such activity may be pursued on our own or through venture investments with third parties. In addition, we will continue to evaluate our owned and leased community portfolios for opportunities to better align our communities to our strategy.

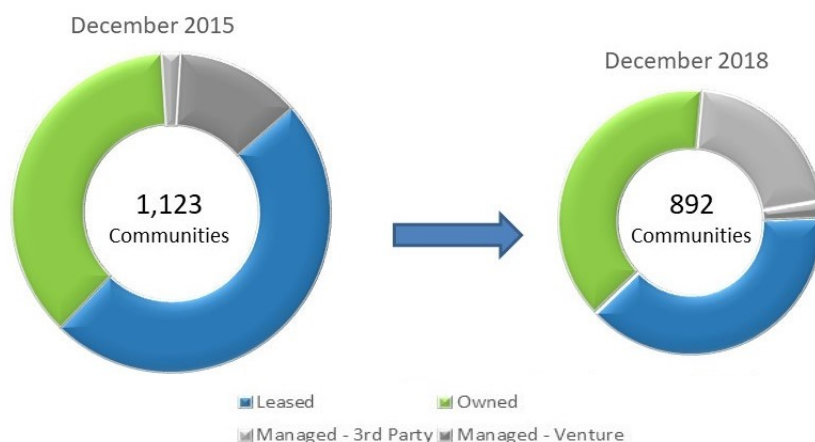
We believe that our successful execution on these strategic priorities and our longer-term plans will allow us to achieve our goal to be the first choice in senior living by being the nation’s most trusted and effective senior living provider and employer.

Recent Developments

Portfolio Optimization and Other Transaction Updates

We have significantly reduced the size of our community portfolio following our acquisition of Emeritus Corporation in 2014. Our acquisition of Emeritus had increased our consolidated community portfolio by 493 communities and significantly increased our scale and provided us entry into 10 new states. Following our integration of Emeritus, during 2016 through 2018 we undertook an initiative to optimize our community portfolio under which we disposed of owned and leased communities and restructured leases in order to simplify and streamline our business, increase the quality and durability of our cash flow, improve our liquidity, and reduce our debt and lease leverage. Further, in 2018 we evaluated our owned-community portfolio for opportunities to monetize select high-value communities.

From 2016 through 2018, we disposed of an aggregate of 75 owned communities as a result of these initiatives and other transactions (50 in 2016, 3 in 2017 and 22 in 2018). We also entered into agreements with our largest lessors that restructured a significant portion of our triple-net lease obligations. As a result of the transactions with HCP, Inc. announced in 2016 and 2017 and Ventas, Inc. and Welltower Inc. announced in 2018, as well as other lease expirations and terminations, our triple-net lease obligations on an aggregate of 201 communities were terminated from 2016 to 2018 (7 in 2016, 105 in 2017 and 89 in 2018). During this period we also sold our ownership interests in seven unconsolidated ventures and acquired six communities that we previously leased or managed. As of December 31, 2018, we owned 344 communities, leased 343 communities, managed 18 communities on behalf of unconsolidated ventures, and managed 187 communities on behalf of third parties. The charts below show the foregoing changes in our portfolio from December 31, 2015 to December 31, 2018.



During the year ending December 31, 2019, we expect to close on the dispositions of 13 owned communities classified as held for sale as of December 31, 2018. For the year we also anticipate terminations of our management arrangements with third parties as we transition to new operators our interim management on formerly owned or leased communities and our management on certain former unconsolidated ventures in which we sold our interest. The closings of the various pending and expected transactions

are, or will be, subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. However, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a summary of the foregoing completed and expected transactions and their impact on our results of operations.

Increased Competitive Pressures

New openings of senior housing communities has subjected the senior housing industry and us to increased competitive pressures in recent years. Data from the National Investment Center for the Seniors Housing & Care Industry ("NIC") shows that industry occupancy began to decrease starting in 2016 as a result of new openings and oversupply. During and since 2016 we have experienced an elevated rate of competitive new openings, with significant new competition opening in several of our markets, which has adversely affected our occupancy, revenues, results of operations and cash flow. We expect the elevated rate of competitive new openings and pressures on our occupancy and rate growth to continue through 2019. Such increased level of new openings, as well as lower levels of unemployment generally, have also contributed to wage pressures and increased competition for community leadership and personnel. We continue to address new competition by focusing on operations with the objective to ensure high customer satisfaction, retain key leadership and actively engage district and regional management in community operations; enhancing our local and national marketing and public relations efforts; and evaluating current community position relative to competition and repositioning if necessary (e.g., services, amenities, programming and price). We also continue to execute on our 3-year plan initiated in 2017 to invest above industry to improve the total rewards program and performance management, training and development program for our community leaders and staff.

Planned Capital Expenditures

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. We expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

The Senior Living Industry

The senior living industry has undergone dramatic growth in the last twenty years, marked by the emergence of assisted living communities in the mid-1990s, and it remains highly fragmented with numerous local and regional operators. According to NIC data, there were more than 2,300 local and regional senior housing operators as of December 31, 2018, of which more than 90% operated five or fewer communities. We are one of a limited number of large operators that provide a broad range of community locations and service level offerings at varying price levels.

Beginning in 2007, the senior housing industry was affected negatively by the downturn in the general economy, which resulted in a near halt in construction of new communities. The industry experienced a slow recovery in occupancy and rate growth beginning in 2010 according to NIC. In more recent years, as the economy has improved and demographic trends favorable to the industry have drawn nearer, the industry has attracted increased investment resulting in increased construction and development of new senior housing supply. New openings of senior housing communities and oversupply have subjected the senior housing industry to increased competitive pressures in recent years. Data from NIC shows that industry occupancy began to decrease starting in 2016 as a result of new openings and oversupply.

We believe that a number of trends will contribute to the continued growth of the senior living industry in coming years. As a result of scientific and medical breakthroughs over the past 30 years, seniors are living longer. Due to demographic trends, and continuing advances in science, nutrition and healthcare, the senior population will continue to grow, and we expect the demand for senior housing and healthcare services to continue to increase in future years. The primary market of the senior living industry is individuals age 80 and older. According to United States Census data, that group's population is projected to increase by nearly 50% to a population of 20 million by 2030.

We believe the senior living industry has been and will continue to be impacted by several other trends. Although seniors are living longer, they are experiencing soaring rates of Alzheimer's and other dementias and the growing burden of chronic diseases and

conditions. As a result of increased mobility in society, a reduction of average family size and increased number of two-wage earner couples, families struggle to provide care for seniors and therefore look for alternatives outside of their family for care. There is a growing consumer awareness among seniors and their families concerning the types of services provided by senior living operators, which has further contributed to the demand for senior living services.

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

In addition, there continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. We cannot predict what action, if any, Congress will take on reimbursement policies of the Medicare or Medicaid programs or what future rule changes the Centers for Medicare & Medicaid Services ("CMS") will implement. Changes in the reimbursement rates or methods or timing of government reimbursement programs could adversely affect our revenues, results of operations and cash flow.

Competition

The senior living industry is highly competitive. We compete with numerous organizations, including not-for-profit entities, that offer similar communities and services, such as home health care and hospice agencies, community-based service programs, retirement communities, convalescent centers and other senior living providers. In general, regulatory and other barriers to competitive entry in the independent living, assisted living and memory care sectors of the senior living industry are not substantial. Consequently, we may encounter competition that could limit our ability to attract new residents and associates, to retain existing residents and associates, and to raise or maintain resident fees and expand our business, which could have a material adverse effect on our occupancy, revenues, results of operations and cash flows. Our major publicly-traded senior housing competitors are Capital Senior Living Corporation and Five Star Senior Living, Inc. Our major private senior housing competitors include Holiday Retirement, Life Care Services, LLC, and Sunrise Senior Living, LLC, as well as a large number of not-for-profit entities.

Over the long term we plan to evaluate and, where opportunities arise, pursue development, investment and acquisition opportunities such as selective acquisitions of senior living communities and operating companies. The market for acquiring and/or operating senior living communities is highly competitive, and some of our present and potential senior living competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. In addition, several publicly-traded and non-traded real estate investment trusts, or REITs, and private equity firms have similar objectives as we do, along with greater financial resources and/or lower costs of capital than we are able to obtain. Partially as a result of tax law changes enacted through RIDEA, we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties, the largest of which are HCP, Inc., Ventas, Inc. and Welltower Inc.

Our History

Brookdale Senior Living Inc. was formed as a Delaware corporation in June 2005 for the purpose of combining two leading senior living operating companies, Brookdale Living Communities, Inc. and Alterra Healthcare Corporation, which had been operating independently since 1986 and 1981, respectively. On November 22, 2005, we completed our initial public offering of common stock, and on July 25, 2006, we acquired American Retirement Corporation, another leading senior living provider that had been operating independently since 1978. On September 1, 2011, we completed the acquisition of Horizon Bay, which was the then-ninth largest operator of senior living communities in the United States. On July 31, 2014, we completed our acquisition by merger of Emeritus Corporation, which was the then-second largest operator of senior living communities in the United States.

Segments

As of December 31, 2018, we had five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. These segments were determined based on the way that our chief operating decision maker organizes our business activities for making operating decisions, assessing performance, developing strategy and allocating capital resources. Prior to this Annual Report on Form 10-K, we referred to the Independent Living segment as our Retirement Centers segment, the Assisted Living and Memory Care segment as our Assisted Living segment, and the Health Care Services segment as our Brookdale Ancillary Services segment. The name changes had no effect on the underlying methodology related to, or results of operations of, our segments.

Communities that we own or lease are included in the Independent Living, Assisted Living and Memory Care, or CCRC segment, as applicable. The home health, hospice and outpatient therapy services provided to our residents and seniors living outside of our communities are generally included in the Health Care Services segment, while skilled nursing and inpatient healthcare services provided in our skilled nursing units are included in the CCRC segment. Communities that we manage on behalf of third parties or unconsolidated ventures in which we have an ownership interest are included in the Management Services segment. The chart below shows the number of communities and units within each of our senior housing and Management Services segments as of December 31, 2018.

Segments	Communities	Units	% of Total Units	Average Number of Units per Community
Independent Living	68	12,419	14.7%	183
Assisted Living and Memory Care	593	37,500	44.5%	63
CCRCs	26	6,573	7.8%	253
Managed	205	27,787	33.0%	136
Total	892	84,279	100.0%	94

For the year ended December 31, 2018, we generated 81.5% of our resident fee revenue from private pay customers, 15.1% from government reimbursement programs (primarily Medicare) and 3.4% from other payor sources. Approximately 44.7% of our resident fee revenue was generated from owned communities, 42.6% was generated from leased communities and 12.7% was generated from our Health Care Services segment. The chart below shows the percentage of our resident fee and management fee revenue attributable to each of our segments for the year ended December 31, 2018.

Segments	Revenue	% of Total Revenue
Independent Living	\$ 599,977	17.0%
Assisted Living and Memory Care	1,995,851	56.8%
CCRCs	416,408	11.8%
Health Care Services	436,975	12.4%
Management Fees	71,986	2.0%
Total resident fee and management fee revenue	\$ 3,521,197	100.0%

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

Our Community Offerings

We offer a variety of senior living communities in locations across the United States. The communities we operate and manage consist of independent living, assisted living and memory care communities, and CCRCs. The majority of our units are organized in campus-like settings or stand-alone communities containing multiple service levels.

Independent Living Communities

Our independent living communities are primarily designed for middle to upper income seniors who desire an upscale residential environment providing the highest quality of service. A number of our independent living residents relocate to one of our communities in order to be in a metropolitan area that is closer to their adult children. The majority of our independent living communities consist of both independent and assisted living units in a single community, which allows residents to age-in-place by providing them with a continuum of senior independent and assisted living services. While the number varies depending upon the particular community, as of December 31, 2018 approximately 78.5% of all of the units at our independent living communities were independent living units, with the balance of the units licensed for assisted living and memory care.

Our independent living communities generally are large multi-story buildings averaging 183 units with extensive common areas and amenities. Residents may choose from studio, one-bedroom and two-bedroom units, depending upon the specific community.

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

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

Residents in our independent living communities are able to maintain their residency for an extended period of time due to the range of service options available to residents (not including skilled nursing) as their needs change. Residents with cognitive or physical frailties and higher level service needs are accommodated with supplemental services in their own units or, in certain communities, are cared for in a more structured and supervised environment on a separate wing or floor. These communities also generally have a dedicated assisted living staff and separate assisted living dining rooms and activity areas.

Assisted Living and Memory Care Communities

Our assisted living and memory care communities offer housing and 24-hour assistance with ADLs to mid-acuity frail and elderly residents. Residents typically enter an assisted living or memory care community due to a relatively immediate need for services that may have been triggered by a medical event. Our assisted living and memory care communities include both freestanding, multi-story communities with more than 50 beds, and smaller, freestanding single story communities. Depending upon the specific location, the community may include (i) private studio, one-bedroom and one-bedroom deluxe apartments, or (ii) individual rooms for one or two residents in wings or "neighborhoods" scaled to a single-family home, which includes a living room, dining room, patio or enclosed porch, laundry room and personal care area, as well as a caregiver work station.

We also provide memory care services at freestanding memory care communities that are specially designed for residents with Alzheimer's and other dementias. Our freestanding memory care communities have approximately 20 to 70 beds and some are part of a campus-like setting which includes a freestanding assisted living community. As of December 31, 2018, we provide memory care services at 462 of our communities, aggregating 11,860 memory care units across our segments. These communities include 115 freestanding memory care communities with 4,473 units included in our Assisted Living and Memory Care segment.

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

As a result of their progressive decline in cognitive abilities, residents at our memory care units typically require higher levels of personal care and services than in assisted living and therefore pay higher monthly service fees. Specialized services include assistance with ADLs, behavior management and an activities program, the goal of which is to provide a normalized environment that supports residents' remaining functional abilities.

CCRCs

Our CCRCs are large communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of our CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include Alzheimer's and dementia care services. Our CCRC residents are generally senior citizens who are seeking a community that offers a continuum of care so that they can age-in-place. These residents generally first enter the community as a resident of an independent living unit and may later move into an assisted living or skilled nursing area as their needs change.

Seventeen of our CCRCs, of which 16 are included in the Management Services segment, allow for residents in the independent living units to pay a one-time upfront entrance fee, typically \$100,000 to \$400,000, which is partially refundable in certain circumstances. We refer to these communities as entry fee CCRCs. The amount of the entrance fee varies depending upon the type and size of the dwelling unit, the type of contract plan selected, whether the contract contains a lifecare benefit (i.e., a healthcare discount) for the resident, the amount and timing of the refund, and other variables. These agreements are subject to regulations

in various states. Residents under all of our entrance fee agreements also pay a monthly service fee, which entitles them to the use of certain amenities and services. Since entrance fees are paid upon initial occupancy, the monthly fees are generally less than fees at a comparable rental community. The refundable portion of a resident's entrance fee is generally refundable within a certain number of months or days following contract termination or upon the resale of the unit, or in some agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. Some entrance fee agreements entitle the resident to a refund of the original entrance fee paid plus a percentage of the appreciation of the unit upon resale.

Our Healthcare Services Offerings

Through our Health Care Services segment we currently provide home health, hospice and outpatient therapy services, as well as education and wellness programs, to residents of many of our communities and to seniors living outside of our communities. As of December 31, 2018, our Health Care Services segment platform included networks in 28 states with the ability to provide home health services to approximately 60% of our units, hospice services to approximately 20% of our units, and outpatient therapy to approximately 15% of our units. Skilled nursing and inpatient healthcare services provided in our skilled nursing units are included in the CCRC segment. During the year ended 2018, we generated approximately 55% of our Health Care Services segment revenue from residents at our communities and approximately 45% from our patients outside our communities.

The home health services we provide include skilled nursing, physical therapy, occupational therapy, speech language pathology, home health aide services, and social services as needed. Our hospice services include clinical and skilled care, as well as spiritual and emotional counseling. Our outpatient therapy services include physical therapy, occupational therapy and speech language pathology services and other specialized therapy. The majority of our home health, hospice and outpatient therapy services are reimbursed by government reimbursement programs, primarily Medicare, and non-covered services are paid directly by residents from private pay sources. Our education and wellness programs focus on wellness and physical fitness to allow residents to maintain maximum independence. These services provide many continuing education opportunities for seniors and their families through health fairs, seminars, and other consultative interactions. We believe that our integrated healthcare services offerings are unique among senior housing operators and that we have a significant advantage over our senior housing competitors with respect to providing such services because of our established infrastructure, scale and experience.

Management Services

As of December 31, 2018, we managed 18 communities on behalf of unconsolidated ventures and 187 communities on behalf of third parties, which represented approximately 33.0% of our senior housing capacity. The chart below shows the type and number of communities and units contained in our Management Services segment as of December 31, 2018 and the percentage of our management fee revenue attributable to such communities for the year ended December 31, 2018.

Community Type	Communities	Units	% of Total Units	Management Fees	% of Total Management Fees
Independent Living	31	5,434	19.5%	11,538	16.0%
Assisted Living and Memory Care	134	10,907	39.3%	25,119	34.9%
CCRCs	40	11,446	41.2%	35,329	49.1%
Total	205	27,787	100.0%	71,986	100.0%

Under our management arrangements, we receive management fees, which are generally determined by an agreed upon percentage of gross revenues (as defined in the management arrangement), as well as reimbursed expenses, which represent the reimbursement of certain expenses we incur on behalf of the owners. A majority of our management arrangements as of December 31, 2018 are interim management arrangements entered into in connection with prior lease terminations that may be terminated by either party on short notice and without any reason, have a remaining term of approximately one year or less, or may be terminated by the owner within the next approximately one-year or less. Generally either party to our management arrangements may terminate upon the occurrence of an event of default caused by the other party, generally subject to cure rights. Several long-term agreements also provide for early termination rights of the owner which may in some cases require an early termination fee. In some cases, subject to our cure rights, if any, community owners may terminate us as manager if any licenses or certificates necessary for operation are revoked, if we do not satisfy certain designated performance thresholds or if the community is sold to an unrelated third party. Also, in some instances, a community owner may terminate the management agreement relating to a particular community if we are in default under other management agreements relating to other communities owned by the same owner or its affiliates. Certain of our management agreements, both with unconsolidated ventures and with entities owned by third parties, provide that an event of default under the debt instruments applicable to the ventures or the entities owned by third parties that is

caused by us may also be considered an event of default by us under the relevant management agreement, giving the non-Brookdale party to the management agreement the right to pursue the remedies provided for in the management agreement, potentially including termination of the management agreement. Further, in the event of default on a loan, the lender may have the ability to terminate us as manager. With respect to communities held in unconsolidated ventures, the management agreement generally may be terminated in connection with the sale by the venture partner of its interest in the venture or the sale of properties by the venture. Termination, early or otherwise, or non-renewal of, or renewal on less-favorable terms, of our management arrangements could cause an unexpected loss in revenues and would negatively impact our results of operations and cash flows.

Approximately 50 of our management arrangements as of December 31, 2018 are interim in nature and were entered into with respect to communities for which leases have been terminated or sales of owned communities. We may enter into such arrangements in connection with future lease terminations or sales of owned communities. Pursuant to these arrangements, we have agreed to manage such formerly-leased or formerly-owned communities until the communities have been transitioned to new managers. Generally either party may terminate these interim management arrangements on short notice and for any reason, and we expect most of the arrangements as of December 31, 2018 to be terminated during 2019.

During the year ended December 31, 2018, approximately 60.7% of our management fees revenue was derived from services provided to unconsolidated ventures in which HCP, Inc. held an interest, including 29.8% of our management fees revenue derived from services provided to our unconsolidated CCRC venture in which we share control with HCP, Inc.

Competitive Strengths

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

- *Skilled management team with extensive experience.* Our senior management team and our Board of Directors have extensive experience in the senior living, healthcare and real estate industries, including the operation and management of a broad range of senior living assets.
- *Geographically diverse, high-quality, purpose-built communities.* As of December 31, 2018, we are the largest operator of senior living communities in the United States based on total capacity, with 892 communities in 45 states and the ability to serve approximately 84,000 residents.
- *Ability to provide a broad spectrum of care.* Given our diverse mix of independent living, assisted living and memory care communities and CCRCs, as well as our healthcare services offerings, we are able to meet a wide range of our residents' and patients' needs. We believe that we are one of the few companies in the senior living industry with this capability and the only company that does so at scale on a national basis. We believe that our multiple product offerings create marketing synergies and cross-selling opportunities.
- *The size of our business allows us to realize cost and operating efficiencies while continuing a local-community focus.* The size of our business allows us to realize cost savings, economies of scale in the procurement of goods and services, and access to favorable debt and financing terms. Our scale also allows us to achieve increased efficiencies with respect to various corporate functions. We negotiate contracts for food, insurance and other goods and services with the advantages that scale provides. In addition, we leverage our centralized corporate functions such as finance, human resources, legal, information technology and marketing. We intend to utilize our expertise and size to capitalize on economies of scale resulting from our national platform and to enhance our residents' and patients' experiences. We believe that our geographic footprint and centralized infrastructure provide us with a significant operational advantage over local and regional operators of senior living communities.
- *Significant experience in providing healthcare services.* Through our Health Care Services segment, we provide a range of home health, hospice, outpatient therapy, education, wellness and other services to residents of certain of our communities and to seniors outside our communities, which we believe is a distinct competitive difference among senior housing operators. We have significant experience in providing these services and expect to receive additional revenues as we expand our offerings of these services to additional residents and seniors living outside of our communities.

Seasonality

Our seniors housing business has typically experienced some seasonality, which we experience in certain regions more than others, due to weather patterns, geography and higher incidence and severity of flu and other illnesses during winter months. Although our seasonal pattern varies from year to year, our average monthly occupancy generally begins to decline sequentially during the

fourth quarter of the year, and we generally expect average monthly occupancy to begin to increase towards the end of the second quarter each year.

Operations

Operations Overview

We have implemented intensive standards, policies and procedures and systems, including detailed staff manuals and training materials, which we believe have contributed to high levels of customer service. Further, we believe our centralized support infrastructure allows our community-based leaders and personnel to focus on resident care and family connections.

Consolidated Corporate Operations Support

We have developed a centralized support infrastructure and services platform, which provides us with a significant operational advantage over local and regional operators of senior living communities. The size of our business also allows us to achieve increased efficiencies with respect to various corporate functions such as procurement, human resources, finance, accounting, legal, information technology and marketing. We are also able to realize cost efficiencies in the purchasing of food, supplies, insurance, benefits, and other goods and services. In addition, we have established centralized operations groups to support all of our product lines and communities in areas such as training, regulatory affairs, asset management, dining and procurement. We have also established company-wide policies and procedures relating to, among other things: resident care; community design and community operations; billing and collections; accounts payable; finance and accounting; risk management; development of employee training materials and programs; marketing activities; the hiring and training of management and other community-based personnel; compliance with applicable local and state regulatory requirements; and implementation of our acquisition, development and leasing plans.

Community Staffing and Training

Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of care and service, social services and financial performance. Each Executive Director receives specialized training from us. In addition, a portion of each Executive Director's compensation is directly tied to the operating performance of the community and key care and service quality measures. We continue to take actions intended to simplify the role of our Executive Directors to allow them to focus on our residents and their families and our associates. We believe that the quality of our communities, coupled with our competitive compensation philosophy and our ability to provide industry-leading systems and training, has enabled us to attract high-quality, professional community Executive Directors.

Depending upon the size of the community, each Executive Director is supported by key leaders, a Health and Wellness Director (or nursing director) and/or a Sales Director. The Health and Wellness Director or nursing director is directly responsible for day-to-day care of residents. The Sales Director oversees the community's sales, marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, healthcare services, activities, housekeeping, and maintenance.

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

Quality Assurance

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

In order to foster a sense of community as well as to respond to residents' needs and desires, at many of our communities, we have established a resident council or other resident advisory committee that meets monthly with the Executive Director of the

community. Separate resident committees also exist at many of these communities for food service, activities, marketing and hospitality. These committees promote resident involvement and satisfaction and enable community management to be more responsive to the residents' needs and desires.

Marketing and Sales

Our marketing efforts are intended to create awareness of our Brookdale brand and services to motivate individuals interested in senior living to visit our communities. We target a variety of constituents who have a role in the decision-making process for senior housing and our healthcare services, including potential residents, their family members and referral sources, including the medical community (hospital discharge planners, physicians, skilled nursing facilities, home health agencies and social workers), professional organizations, employer groups, clergy, area agencies for the elderly, and paid referral organizations. Our marketing staff develops overall strategies for promoting our communities at the local and national level and monitors the success of our multi-layered marketing efforts, including local media and outreach programs, internet advertising, social media, print advertising, e-mail, direct mail, signage and special events, such as health fairs and community receptions. We utilize contact centers and the Brookdale website to handle hundreds of thousands of customer inquiries to schedule visits directly to our communities. Certain resident referral programs have been established and promoted at many communities within the limitations of federal and state laws.

We will continue to leverage our brand recognition while pursuing a multi-layered marketing approach. We have a Network Selling methodology, aimed at optimizing the customer experience as they consider the many options and care levels that we provide within the markets we serve. With our selling model, sales associates are organized to support communities directly as well as coordinate the sales efforts of multiple communities where we have density within markets. Additionally, we have segmented our communities to optimize levels of price, service offerings, amenities and programs offered based on local demand and supply so that we can create differentiated value to meet the needs of our customers.

Employees

As of December 31, 2018, we had approximately 43,200 full-time employees and approximately 22,200 part-time employees, of which approximately 560 work in our Brentwood, Tennessee headquarters office and approximately 570 work in our Milwaukee, Wisconsin office. We currently consider our relationship with our employees to be good. During 2018 we eliminated our smaller regional support offices.

Industry Regulation

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

Many senior living communities are also subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. Although requirements vary from state to state, these requirements may address, among others, the following: personnel education, training and records; community services; staffing; physical plant specifications; furnishing of resident units; food and housekeeping services; emergency evacuation plans; emergency power generator requirements; professional licensing and certification of staff; and resident rights and responsibilities. In several of the states there are different levels of care that can be provided based on the level of licensure. In several of the states in which we operate or intend to operate, assisted living and memory care communities, home health agencies and/or skilled nursing facilities require a certificate of need before the community or agency can be opened or the services at an existing community can be expanded. Senior living communities may also be subject to state and/or local building, zoning, fire and food service codes and must be in compliance with these local codes before licensing or certification may be granted. These laws and regulatory requirements could affect our ability to expand into new markets and to expand our services and communities in existing markets.

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

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

There are various extremely complex federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by healthcare providers, including those in the senior living industry, and governmental agencies are devoting increasing attention and resources to such anti-fraud initiatives. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Balanced Budget Act of 1997 expanded the penalties for healthcare fraud. With respect to our participation in federal healthcare reimbursement programs, the government or private individuals acting on behalf of the government may bring an action under the False Claims Act alleging that a healthcare provider has defrauded the government and seek treble damages for false claims and the payment of additional monetary civil penalties. The False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, so-called "whistleblower" suits have become more frequent.

Additionally, since we operate communities that participate in federal and/or state healthcare reimbursement programs, we are subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state. Violation of any of these laws can result in loss of licensure, citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, or termination of participation in Medicare and Medicaid programs, which may also cause us to default under our debt and lease documents and/or trigger cross-defaults.

We are also subject to certain federal and state laws that regulate financial arrangements by healthcare providers, such as the Federal Anti-Kickback Law, the Stark laws and certain state referral laws. The Federal Anti-Kickback Law makes it unlawful for any person to offer or pay (or to solicit or receive) "any remuneration ... directly or indirectly, overtly or covertly, in cash or in kind" for referring or recommending for purchase any item or service which is eligible for payment under the Medicare and/or Medicaid programs. Authorities have interpreted this statute very broadly to apply to many practices and relationships between healthcare providers and sources of patient referral. If we were to violate the Federal Anti-Kickback Law, we may face criminal penalties and civil sanctions, including fines and possible exclusion from government reimbursement programs, which may also cause us to default under our leases and loan agreements and/or trigger cross-defaults. Adverse consequences may also result if

we violate federal Stark laws related to certain Medicare and Medicaid physician referrals. While we endeavor to comply with all laws that regulate the licensure and operation of our senior living communities, it is difficult to predict how our revenues could be affected if we were subject to an action alleging such violations.

We are also subject to federal and state laws designed to protect the confidentiality of patient health information. The United States Department of Health and Human Services has issued rules pursuant to HIPAA relating to the privacy of such information. Rules that became effective in 2003 govern our use and disclosure of health information at certain HIPAA covered communities. We established procedures to comply with HIPAA privacy requirements at these communities. We were required to be in compliance with the HIPAA rule establishing administrative, physical and technical security standards for health information by 2005. To the best of our knowledge, we are in compliance with these rules.

Medicare and Medicaid Programs

We rely on reimbursement from government programs, including the Medicare program and, to a lesser extent, Medicaid programs, for a portion of our revenues. Reimbursements from Medicare and Medicaid represented 12.4% and 2.7%, respectively, of our total resident fee revenues for the year ended December 31, 2018. During the period, Medicare reimbursements represented 81.7% of our Health Care Services segment revenue, and Medicare and Medicaid reimbursements represented 20.9% of our CCRCs segment revenue.

Medicare is a federal program that provides certain hospital and medical insurance benefits to persons age 65 and over and certain disabled persons. We receive revenue for our home health, hospice, skilled nursing and outpatient therapy services from Medicare. Medicaid is a medical assistance program administered by each state, funded with federal and state funds pursuant to which healthcare benefits are available to certain indigent or disabled patients. We receive reimbursements under Medicaid (including state Medicaid waiver programs) for many of our assisted living and memory care communities.

These government reimbursement programs are highly regulated, involve significant administrative discretion, and are subject to frequent and substantial legislative, administrative and interpretive changes, which may significantly affect reimbursement rates and the methods and timing of payments made under these programs. Continuing efforts of government to contain healthcare costs could materially and adversely affect us, and reimbursement levels may not remain at levels comparable to present levels or may not be sufficient to cover the costs allocable to patients eligible for reimbursement.

Medicare reimbursement for home health and skilled nursing services is subject to fixed payments under the Medicare prospective payment systems. In accordance with Medicare laws, CMS makes annual adjustments to Medicare payment rates in many prospective payment systems under what is commonly known as a "market basket update." Each year, the Medicare Payment Advisory Commission ("MedPAC"), a commission chartered by Congress to advise it on Medicare payment issues, recommends payment policies to Congress for a variety of Medicare payment systems. Congress is not obligated to adopt MedPAC recommendations and based on previous years, there can be no assurance that Congress will adopt MedPAC's recommendations in any given year.

Medicaid reimbursement rates for many of our assisted living and memory care communities also are based upon fixed payment systems. Generally, these rates are adjusted annually for inflation. However, those adjustments may not reflect actual increases of the cost of providing healthcare services. In addition, Medicaid reimbursement can be impacted negatively by state budgetary pressures, which may lead to reduced reimbursement or delays in receiving payments.

Audits and Investigations

As a result of our participation in the Medicare and Medicaid programs, we are subject to various government reviews, audits and investigations to verify our compliance with these programs and applicable laws and regulations. CMS has engaged a number of third party firms, including Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), and Unified Program Integrity Contractors (UPIC) to conduct extensive reviews of claims data to evaluate the appropriateness of billings submitted for payment. Audit contractors may identify overpayments based on coverage requirements, billing and coding rules or other risk areas. In addition to identifying overpayments, audit contractors can refer suspected violations of law to government enforcement authorities. An adverse determination of government reviews, audits and investigations may result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, or termination of participation in Medicare and Medicaid programs. Our costs to respond to and defend any such audits, reviews and investigations may be significant and are likely to increase in the current enforcement environment, and any resulting sanctions or criminal, civil or regulatory penalties could have a material adverse effect on our business, financial condition, results of operations and cash flow.

The Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act

To help fund the expansion of healthcare coverage to previously uninsured people, the Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act of 2010 (collectively, the “Affordable Care Act”), which became law in 2010, provides for certain reforms to the healthcare delivery and payment system aimed at increasing quality and reducing costs.

As it relates to our business, the Affordable Care Act provides for reductions to the annual market basket payment updates for home health and hospice agencies and additional annual “productivity adjustment” reductions to the annual market basket payment update as determined by CMS for skilled nursing facilities (beginning in federal fiscal year 2012), hospice agencies (beginning in federal fiscal year 2013), and home health agencies (beginning in federal fiscal year 2015). These reductions have, and could in the future, result in lower reimbursement than the previous year. The Affordable Care Act also provides for new transparency, reporting, and certification requirements for skilled nursing facilities.

Furthermore, the Affordable Care Act mandates changes to home health and hospice benefits under Medicare. For home health, the Affordable Care Act mandates creation of a value-based purchasing program, development of quality measures, a decrease in home health reimbursement beginning with federal fiscal year 2014 that was phased-in over a four-year period, a reduction in the outlier cap, and reinstatement of a 3% add-on payment for home health services delivered to residents in rural areas on or after April 1, 2010 and before January 1, 2016. The Affordable Care Act also requires the Secretary of HHS to test different models for delivery of care, some of which would involve home health services. It also requires the Secretary to establish a national pilot program for integrated care for patients with certain conditions, bundling payment for acute hospital care, physician services, outpatient hospital services, and post-acute care services, which would include home health. The Affordable Care Act further directed the Secretary of HHS to rebase payments for home health, which resulted in a decrease in home health reimbursement that began in 2014 and was phased-in over a four-year period. The Secretary is also required to conduct a study to evaluate costs and quality of care among efficient home health agencies regarding access to care and treating Medicare beneficiaries with varying severity levels of illness and to provide a report to Congress.

Potential efforts in the Congress to alter, amend, repeal or replace the Affordable Care Act, or to fail to fund various aspects of the Affordable Care Act, create additional uncertainty about the ultimate impact of the Affordable Care Act on us and the healthcare industry. The healthcare reforms and changes resulting from the Affordable Care Act, as well as other similar healthcare reforms, including any potential change in the nature of services we provide, the methods or amount of payment we receive for such services, and the underlying regulatory environment, could adversely affect our business, revenues, results of operations and cash flows.

The Improving Medicare Post-Acute Care Transformation Act of 2014

The Improving Medicare Post-Acute Care Transformation Act of 2014 (the “IMPACT Act”), which became law in 2014, requires standardized assessment data for quality improvement, payment, and discharge planning purposes across the spectrum of post-acute care, including home health, hospice and skilled nursing. The IMPACT Act will require such agencies and facilities to begin reporting standardized patient assessment data, new quality measures, and resource use measures. Failure to report such data when required would subject an agency or facility to a two percent reduction in market basket prices then in effect. The IMPACT Act further requires HHS and MedPAC to study, and report to Congress by 2022 regarding alternative post-acute care payment models, including payment based upon individual patient characteristics and not care setting. The IMPACT Act also includes provisions impacting Medicare-certified hospices, including increasing survey frequency to once every 36 months, imposing a medical review process for facilities with a high percentage of stays in excess of 180 days, and updating the annual aggregate Medicare payment cap.

The Medicare Access and CHIP Reauthorization Act of 2015

The Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) became law in 2015. The legislation, among other things, permanently replaced the sustainable growth rate formula previously used to determine updates to Medicare fee schedule payments with quality and value measurements and participation in alternate payment models; extended the Medicare Part B outpatient therapy cap exception process until December 31, 2017; extended the 3% add-on payment for home health services delivered to residents in rural areas until December 31, 2017; and set payment updates for post-acute providers at 1% after other adjustments required by the Affordable Care Act for 2018. As part of federal budget legislation that became law on February 9, 2018, the Medicare Part B cap on outpatient therapy services was permanently repealed effective January 1, 2018.

Home Health Claim Review Demonstrations

In 2016, CMS announced that it would implement a 3-year Medicare pre-claim review demonstration for home health services in the states of Illinois, Florida, Texas, Michigan and Massachusetts. The pre-claim review is a process through which a request for provisional affirmation of coverage is submitted for review before a final claim is submitted for payment. CMS began the pre-

claim review demonstration in Illinois in August 2016, which CMS paused in April 2017. The pre-claim review demonstration resulted in increased administrative costs and reimbursement delays for our Illinois home health agency. In December 2018, CMS indicated it was continuing the process for obtaining approval under the Paperwork Reduction Act of a 5-year Medicare claim review demonstration for Illinois, which would be further expanded to Florida, Texas, North Carolina and Ohio. Under this Review Choice Demonstration as currently proposed, providers would have an initial choice of three options for review: pre-claim review, post-payment review, or minimal post-payment review with a 25% payment reduction for all home health services. We derive a significant portion of our home health revenue from these states. If implemented, the claim review demonstrations could adversely affect our revenue, results of operations and cash flows.

Home Health Value-Based Purchasing

On January 1, 2016, CMS implemented Home Health Value-Based Purchasing ("HHVBP"). The HHVBP model was designed to give Medicare certified home health agencies incentives or penalties, through payment bonuses, to give higher quality and more efficient care. HHVBP was rolled out to nine pilot states: Arizona, Florida, Iowa, Maryland, Massachusetts, Nebraska, North Carolina, Tennessee and Washington, six of which Brookdale currently has home health operations. Bonuses and penalties began in 2018 with the maximum of plus or minus 3% and are scheduled to grow to plus or minus 8% by 2022. Payment adjustments are calculated based on performance in 20 measures which include current Quality of Patient Care and Patient Satisfaction star measures, as well as measures based on submission of data to a CMS web portal.

The Bipartisan Budget Act of 2018

The Bipartisan Budget Act of 2018 (the "BBA"), enacted in February 2018, includes several provisions impacting Medicare reimbursement to home health, hospice, and outpatient therapy providers. With respect to home health providers, the BBA (1) will base payment on a 30-day episode of care beginning January 1, 2020, coupled with annual determinations by CMS to ensure budget neutrality (including taking into account provider behavior), (2) will eliminate retroactive payment adjustments based upon the level of therapy services required beginning January 1, 2020, (3) extends the 3% add-on payment for home health services provided to residents in rural areas beginning January 1, 2018, coupled with a reduction and phase out of such add-on payment over the following four fiscal years, and (4) will establish a market basket update of 1.5% for the year beginning January 1, 2020. With respect to hospice providers, the BBA establishes a new payment policy related to early discharges to hospice care from hospitals. This policy imposed a financial penalty on hospitals for each early discharge to hospice care beginning October 1, 2018. With respect to outpatient therapy providers, the BBA permanently repeals the Medicare Part B outpatient therapy cap effective January 1, 2018 and continues the targeted medical review process with a reduction of the applicable threshold triggering such review to \$3,000 effective January 1, 2018.

CMS Final Rule 1689-FC for Medicare Home Health Prospective Payment

In July 2018, CMS issued proposed payment changes for Medicare home health providers for 2019 and 2020. For 2019, CMS estimates that the net impact of the payment provisions of the proposed changes will result in an increase of 2.2% in reimbursement to home health providers and finalizes the methodology used to determine the rural add-on payment for 2019 through 2022 as well as regulations text changes regarding certifying and recertifying patient eligibility for Medicare home health services and remote patient monitoring. Additionally, the proposed rule includes changes to the home health prospective payment system ("HHPPS") case-mix adjustment methodology through the use of a new Patient-Driven Grouping Model ("PDGM") for home health payments. This change is proposed to be implemented January 1, 2020 and also includes a change in the unit of payment from 60-day episodes of care to 30-day episodes of care.

Environmental Matters

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

disposal of such substances as well as without regard to whether such release or disposal was in compliance with law at the time it occurred. Moreover, the imposition of such liability upon us could be joint and several, which means we could be required to pay for the cost of cleaning up contamination caused by others who have become insolvent or otherwise judgment proof. We do not believe that we have incurred such liabilities that would have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Available Information

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

We have posted our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit, Compensation, Investment and Nominating and Corporate Governance Committees on our web site at www.brookdale.com/investor. Our Code of Ethics for Chief Executive and Senior Financial Officers, which applies to our President and Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Treasurer is also available on our web site.

Item 1A. Risk Factors.

Risks Related to Our Business and Industry

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

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

Changes in the reimbursement rates or methods or timing of payment from government reimbursement programs, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursement for our senior living and healthcare services could adversely affect our revenues, results of operations and cash flow.

We rely on reimbursement from government programs, including Medicare and Medicaid, for a portion of our revenues, and we cannot provide assurance that reimbursement levels will not decrease in the future, which could adversely affect our revenues, results of operations and cash flow. Reimbursements from Medicare and Medicaid represented 12.4% and 2.7%, respectively, of our total resident fee revenues for the year ended December 31, 2018. During such period, Medicare reimbursements represented 81.7% of our Health Care Services segment revenue, and Medicare and Medicaid reimbursements represented 20.9% of our CCRC segment revenue. See "Item 1. Business-Government Regulation" for more information regarding these programs, including the impact of recent legislation on such programs.

Congress continues to discuss medical spending reduction measures, leading to a high degree of uncertainty regarding potential reforms to government reimbursement programs, including Medicare and Medicaid. These discussions, along with other recent reforms and continuing efforts to reform government reimbursement programs, both as part of the Affordable Care Act and otherwise, could result in major changes in the healthcare delivery and reimbursement systems on both the national and state levels. Weak economic conditions also could adversely affect federal and state budgets, which could result in attempts to reduce or eliminate payments for federal and state reimbursement programs, including Medicare and Medicaid.

Though we cannot predict what reform proposals will be adopted or finally implemented, healthcare reform and regulations may have a material adverse effect on our business, financial position, results of operations, and cash flow through, among other things, decreasing funds available for our services or increasing our operating costs. Continuing efforts of government to contain healthcare costs could materially and adversely affect us, and reimbursement levels may not remain at levels comparable to present levels or may not be sufficient to cover the costs allocable to patients eligible for reimbursement.

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

The healthcare industry in the United States is subject to fundamental changes due to ongoing healthcare reform efforts and related political, economic and regulatory influences. Notably, the Affordable Care Act resulted in expanded healthcare coverage to millions of previously uninsured people beginning in 2014 and has resulted in significant changes to the United States healthcare system. To help fund this expansion, the Affordable Care Act outlines certain reductions for Medicare reimbursed services, including skilled nursing, home health, hospice and outpatient therapy services, as well as certain other changes to Medicare payment methodologies. This comprehensive healthcare legislation has resulted and will continue to result in extensive rulemaking by regulatory authorities, and also may be altered, amended, repealed or replaced. It is difficult to predict the full impact of the Affordable Care Act due to the complexity of the law and implementing regulations, as well our inability to foresee how CMS and other participants in the healthcare industry will respond to the choices available to them under the law. We also cannot accurately predict whether any new or pending legislative proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our business. Similarly, while we can anticipate that some of the rulemaking that will be promulgated by regulatory authorities will affect us and the manner in which we are reimbursed by the federal reimbursement programs, we cannot accurately predict today the impact of those regulations on our business. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act or any amended or replacement legislation may increase our costs, adversely affect our revenues, expose us to expanded liability or require us to revise the ways in which we conduct our business.

In addition to its impact on the delivery and payment for healthcare, the Affordable Care Act and the implementing regulations have resulted and may continue to result in increases to our costs to provide healthcare benefits to our employees. We also may be required to make additional employee-related changes to our business as a result of provisions in the Affordable Care Act or any amended or replacement legislation impacting the provision of health insurance by employers, which could result in additional expense and adversely affect our results of operations and cash flow.

Continued new senior housing construction and development, and increased competition, has had and may continue to have an adverse effect on our occupancy, revenues, results of operations and cash flow.

The senior living industry is highly competitive. We compete with numerous organizations, including not-for-profit entities, that offer similar communities and services, such as home health care and hospice agencies, community-based service programs, retirement communities, convalescent centers and other senior living providers. In general, regulatory and other barriers to competitive entry in the independent living, assisted living and memory care sectors of the senior living industry are not substantial. In addition, over the last several years there has been an increase in the construction of new senior housing communities as the industry has attracted increased investment. During and since 2016 we have experienced an elevated rate of competitive new openings, with significant new competition opening in several of our markets, which has adversely affected our occupancy, revenues, results of operations and cash flow. We expect the elevated rate of competitive new openings and pressures on our occupancy and rate growth to continue through 2019, although we cannot provide assurance that these will subside according to our expectations since the senior living industry may become more competitive in the future. Such new competition that we have encountered or may encounter could limit our ability to attract new residents and associates, to retain existing residents and associates, and to raise or maintain resident fees or expand our business, which could have a material adverse effect on our occupancy, revenues, results of operations and cash flow.

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

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

As of December 31, 2018, we had two principal corporate-level debt obligations: our secured revolving credit facility providing commitments of \$250 million and our separate unsecured letter of credit facility providing for up to \$66.2 million of letters of credit. We also had \$3.5 billion principal amount of mortgage financing outstanding as of such date. If we are unable to extend or refinance any of these facilities or other debt prior to their scheduled maturity dates, our liquidity and financial condition could be adversely impacted. In addition, even if we are able to extend or refinance our maturing debt or credit or letter of credit facilities, the terms of the new financing may not be as favorable to us as the terms of the existing financing.

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

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

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

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

If we are unable to generate sufficient cash flow to cover required interest and lease payments, this could result in defaults of the related debt or leases and cross-defaults under our other debt or lease documents, which would adversely affect our capital structure, financial condition, results of operations and cash flow.

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

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

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

- We may have little or no cash flow apart from cash flow that is dedicated to the payment of any interest, principal or amortization required with respect to outstanding indebtedness and lease payments with respect to our long-term leases;
- Increases in our outstanding indebtedness, leverage and long-term lease obligations will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- Increases in our outstanding indebtedness may limit our ability to obtain additional financing for working capital, capital expenditures, expansions, repositionings, new developments, acquisitions, general corporate and other purposes; and
- Our ability to pay dividends to our stockholders (should we initiate dividend payments in the future) may be limited.

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

Our debt and lease documents contain financial and other covenants, including covenants that limit or restrict our operations and activities (including our ability to borrow additional funds and engage in certain transactions without consent of the applicable lender or lessor), and any default under such documents could result in the acceleration of our indebtedness and cash lease obligations, the foreclosure of our mortgaged communities, the termination of our leasehold interests, and/or cross-defaults under our other debt or lease documents, any of which could materially and adversely impact our capital structure, financial condition, results of operations, cash flow and liquidity and interfere with our ability to pursue our strategy.

Certain of our debt and lease documents contain restrictions and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and debt service and lease coverage ratios, and requiring us not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. Net worth is generally calculated as stockholders' equity as calculated in accordance with GAAP, and in certain circumstances, reduced by intangible assets or liabilities or increased by deferred gains from sale-leaseback transactions and deferred entrance fee revenue. The debt service and lease coverage ratios are generally calculated as revenues less operating expenses, including an implied management fee and a reserve for capital expenditures, divided by the debt (principal and interest) or lease payment. In addition, our debt and lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements.

Our failure to comply with applicable covenants could constitute an event of default under the applicable debt or lease documents. Many of our debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors).

These restrictions and covenants may interfere with our ability to obtain financing or to engage in other business activities, which may inhibit our ability to pursue our strategy. In addition, certain of our outstanding indebtedness and leases limit or restrict, among other things, our ability and our subsidiaries' ability to borrow additional funds, engage in a change in control transaction, dispose of all or substantially all of our or their assets, or engage in mergers or other business combinations without consent of the applicable lender or lessor. In certain circumstances, the consent of the applicable lender or lessor may be based on the lender's or lessor's sole discretion. Our inability to obtain the consent of applicable lenders and landlords in connection with our pursuit of any such transactions may forestall our ability to consummate such transactions. Furthermore, the costs of obtaining such consents may reduce the value that our stockholders may realize in any such transactions.

The substantial majority of our lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. Due to the nature of such master leases, it is difficult to restructure the composition of our leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio could result in a default on the entire master lease portfolio.

Furthermore, our debt and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, if an event of default has occurred under any of our debt or lease documents, subject to cure provisions in certain instances, the respective lender or lessor would have the right to declare all the related outstanding amounts of indebtedness or cash lease obligations immediately due and payable, to foreclose on our mortgaged communities, to terminate our leasehold interests, to foreclose on other collateral securing the indebtedness and leases, to discontinue our operation of leased communities and/or to pursue other remedies available to such lender or lessor. Further, an event of default could trigger cross-default provisions in our other debt and lease documents (including documents with other lenders or lessors). We cannot provide assurance that we would be able to pay the debt or lease obligations if they became due upon acceleration following an event of default.

In addition, certain of our master leases and management agreements contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such agreements.

These radius restrictions could negatively affect our ability to expand or develop or acquire senior housing communities and operating companies.

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

Lease obligations and mortgage debt increase our risk of loss because defaults on leases or indebtedness secured by properties may result in lease terminations by lessors and foreclosure actions by lenders. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could negatively impact our results of operations and cash flow. Further, because many of our outstanding debt and lease documents contain cross-default and cross-collateralization provisions, a default by us related to one community could affect a significant number of our other communities and their corresponding financing arrangements and leases.

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

Increases in market interest rates could significantly increase the costs of our debt obligations, which could adversely affect our results of operations and cash flow.

Our variable-rate debt obligations and any such obligations incurred in the future expose us to interest rate risk. Although we have interest rate cap agreements in place for a majority of our variable-rate debt, these agreements only limit our exposure to increases in interest rates above certain levels and generally must be renewed every two to three years. Increases in prevailing interest rates will increase our payment obligations on our existing variable-rate obligations to the extent they are un-hedged and may increase our future borrowing and hedging costs, which would negatively impact our results of operations and cash flow.

Increased competition for, or a shortage of, personnel, and wage pressures resulting from increased competition, low unemployment levels, minimum wage increases, changes in overtime laws, and union activity may have an adverse effect on our business, results of operations and cash flow.

Our success depends on our ability to retain and attract qualified management and other personnel who are responsible for the day-to-day operations of each of our communities. Each community has an Executive Director responsible for the overall day-to-day operations of the community, including quality of care and service, social services and financial performance. Depending upon the size of the community, each Executive Director is supported by key leaders, a Health and Wellness Director (or nursing director) and/or a Sales Director. The Health and Wellness Director or nursing director is directly responsible for day-to-day care of residents. The Sales Director oversees the community's sales, marketing and community outreach programs. Other key positions supporting each community may include individuals responsible for food service, healthcare services, activities, housekeeping, and maintenance.

We compete with various healthcare service providers, other senior living providers and hospitality and food services companies in retaining and attracting qualified personnel. Increased competition for, or a shortage of, nurses, therapists or other personnel, low levels of unemployment, or general inflationary pressures have required and may require in the future that we enhance our pay and benefits package to compete effectively for such personnel. In addition, we have experienced and may continue to experience wage pressures due to minimum wage increases mandated by state and local laws and the proposed increase to the salary thresholds for overtime exemptions under the Fair Labor Standards Act, which the Department of Labor is currently contemplating. It is unclear what rule changes the Department of Labor will adopt. If such rule changes result in higher operating costs, we may not be able to offset the added costs resulting from competitive, inflationary or regulatory pressures by increasing the rates we charge to our residents or our service charges, which would negatively impact our results of operations and cash flow.

Turnover rates of our personnel and the magnitude of the shortage of nurses, therapists or other personnel varies substantially from market to market. If we fail to attract and retain qualified personnel, our ability to conduct our business operations effectively, our overall operating results and cash flow could be harmed.

In addition, efforts by labor unions to unionize any of our community personnel could divert management attention, lead to increases in our labor costs and/or reduce our flexibility with respect to certain workplace rules. If we experience an increase in organizing activity, if onerous collective bargaining agreement terms are imposed upon us, or if we otherwise experience an increase in our staffing and labor costs, our results of operations and cash flow would be negatively affected.

Failure to maintain the security and functionality of our information systems, or to prevent a cybersecurity attack or breach, could adversely affect our business, reputation and relationships with our residents, patients and employees and subject us to remediation costs, government inquiries and liabilities under data and consumer protection laws, any of which could materially and adversely impact our revenues, results of operations, cash flow and liquidity.

We are dependent on the proper function and availability of our information systems, including hardware, software, applications and electronic data storage, to store, process and transmit our business information, including proprietary business information and personally identifiable information of our residents, patients and employees. Though we have taken steps to protect the cybersecurity and physical security of our information systems, there can be no assurance that our security measures and disaster recovery plan will prevent damage to, or interruption or breach of, our information systems.

Because the techniques used to obtain unauthorized access to systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, components of our information systems that we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security or functionality of our information systems. Unauthorized parties may also attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud or other forms of deceiving our employees or contractors such as email phishing attacks. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our cybersecurity or to investigate and remediate any cybersecurity vulnerabilities, attacks or incidents.

In addition, we rely on software support of third parties to secure and maintain our information systems. Our inability, or the inability of these third parties, to continue to maintain and upgrade our information systems could disrupt or reduce the efficiency of our operations. Costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could disrupt or reduce the efficiency of our operations.

Failure to maintain the security and functionality of our information systems, or to prevent a cybersecurity attack or other unauthorized access to our information systems, could expose us to a number of adverse consequences, many of which are not insurable, including: (i) interruptions to our business, (ii) the theft, destruction, loss, misappropriation, or release of sensitive information, including proprietary business information and personally identifiable information of our residents, patients and employees, (iii) significant remediation costs; (iv) negative publicity which could damage our reputation and our relationships with our residents, patients, employees and referral sources, (v) litigation and potential liability under privacy, security and consumer protection laws or other applicable laws, and (vi) government inquiries which may result in sanctions and other criminal or civil fines or penalties. Any of the foregoing could materially and adversely impact our revenues, results of operations, cash flow and liquidity.

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

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

Pending disposition transactions are, and any future disposition transactions will be, subject to various closing conditions, including the receipt of regulatory approvals where applicable, likely will result in reductions to our revenue and may negatively impact our results of operations and cash flow.

During 2019, we expect to close on the dispositions of 13 owned communities classified as held for sale as of December 31, 2018. For the year we also anticipate terminations of our management arrangements with third parties as we transition to new operators our interim management on formerly owned or leased communities and our management on certain former unconsolidated ventures in which we sold our interest. Over the longer term, we may dispose of owned or leased communities through asset sales and lease terminations and expirations. The closings of any such transactions, or those that we identify in the future, generally are or will

be subject to closing conditions, which may include the receipt of regulatory approvals, and we cannot provide assurance that any such transactions will close or, if they do, when the actual closings will occur. The sales price for pending or future dispositions may not meet our expectations due to the underlying performance of such communities or conditions beyond our control, and we may be required to take impairment charges in connection with such sales if the carrying amounts of such assets exceed the proposed sales prices, which could adversely affect our financial condition and results of operations. Further, we cannot provide assurance that we will be successful in identifying and pursuing disposition opportunities on terms that are acceptable to us, or at all. We may be required to pay significant amounts to restructure or terminate leases and we may be required to take charges in connection with such activity, which could adversely affect our financial condition and results of operations.

Completion of the dispositions of communities through sales or lease terminations and the termination of our management arrangements, including pending transactions and those we enter into in the future, likely will result in reductions to our revenue and may negatively impact our results of operations and cash flow. Further, if we are unable to reduce our general and administrative expense with respect to completed dispositions and management arrangement terminations in accordance with our expectations, we may not realize the expected benefits of such transactions, which could negatively impact our anticipated results of operations and cash flow.

We may need additional capital to fund our operations and capital expenditures plans, to pursue expansion of our healthcare services, and to pursue any development, investment and acquisition opportunities, and we may not be able to obtain it on terms acceptable to us, or at all.

Execution on our strategy, completing our capital expenditure plans, pursuing expansion of our healthcare services to residents and seniors living outside our communities, and pursuing any other development, investment and acquisition opportunities that we may identify may require additional capital. Financing may not be available to us or may be available to us only on terms that are not favorable. In addition, certain of our outstanding indebtedness and long-term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to delay or abandon some or all of our plans or opportunities. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock.

Failure to complete our capital expenditures in accordance with our plans may adversely affect our anticipated revenues, results of operations and cash flow.

Our planned full-year 2019 non-development capital expenditures are approximately \$250 million net of anticipated lessor reimbursements, and such projects include those related to maintenance, renovations, upgrades and other major building infrastructure projects for our communities. Our full-year 2019 non-development capital expenditure plans include a significant increase over the prior year primarily attributable to major building infrastructure projects that we identified as part of our intensive review of capital expenditures needed to ensure that our communities are in appropriate physical condition to support our strategy and to determine what additional investments are needed to protect the value of our community portfolio. In addition, our planned full-year 2019 development capital expenditures are approximately \$30 million net of anticipated lessor reimbursements, and such projects include those for community expansions and major community redevelopment and repositioning projects, including our Program Max initiative through which we expand, renovate, reposition or redevelop selected existing senior living communities.

Our capital projects are in various stages of planning and development and are subject to a number of factors over which we may have little or no control. These factors include the necessity of arranging separate leases, mortgage loans or other financings to provide the capital required to complete these projects; difficulties or delays in obtaining zoning, land use, building, occupancy, licensing, certificate of need and other required governmental permits and approvals; failure to complete construction of the projects on budget and on schedule; failure of third-party contractors and subcontractors to perform under their contracts; shortages of labor or materials that could delay projects or make them more expensive; adverse weather conditions that could delay completion of projects; increased costs resulting from general economic conditions or increases in the cost of materials; and increased costs as a result of changes in laws and regulations.

We cannot provide assurance that we will undertake or complete all of our planned capital expenditures, or that we will not experience delays in completing those projects. In addition, we may incur substantial costs prior to achieving stabilized occupancy for certain capital projects and cannot assure you that these costs will not be greater than we have anticipated. We also cannot provide assurance that any of our capital projects will be economically successful or provide a return on investment in accordance with our plans or at all. Furthermore, our failure to complete, or delays in completing, our planned community-level capital expenditures could harm the value of our communities and our revenues, results of operations and cash flow.

To the extent we identify and pursue any future development, investment or acquisition opportunities, we may encounter difficulties in acquiring communities at attractive prices or integrating acquisitions with our operations, which may adversely affect our financial condition, results of operations and cash flow.

Over the longer term, we plan to explore additional products and services that we may offer to our residents and, where opportunities arise, pursue development, investment and acquisition opportunities such as acquisitions of senior living communities and operating companies. We may not be able to identify any such opportunities on attractive terms and that are compatible with our strategy. To the extent we identify any such opportunities and enter into definitive agreements in connection therewith, we cannot provide assurance that the transactions will be completed. Failure to complete transactions after we have entered into definitive agreements may result in significant expenses to us.

To the extent we identify and close on any future development, investment or acquisition opportunities, the integration of such products, services, communities or operating companies into our existing business may result in unforeseen difficulties, divert managerial attention or require significant financial or other resources. Further, any such closings may require us to incur additional indebtedness and contingent liabilities and may result in unforeseen expenses or compliance issues, which may adversely affect our revenue growth, results of operations and cash flow. Moreover, any future development, investment or acquisition transactions may not generate any additional income for us or provide any benefit to our business.

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

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

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

We plan to continue to expand our healthcare services to additional residents and seniors living outside of our communities. In the current environment, it is difficult to obtain certain required regulatory approvals. Delays in obtaining required regulatory approvals could impede our ability to expand such services in accordance with our plans, which could negatively impact our anticipated revenues, results of operations and cash flow.

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

We manage entry fee CCRCs on behalf of our venture with HCP, and we operate an additional entry fee CCRC. Residents of these communities typically receive a limited lifecare benefit and pay an upfront entrance fee upon occupancy, of which a portion is generally refundable, with an additional monthly service fee while living in the community. This limited lifecare benefit is typically a certain number of free days in the community's health center during the resident's lifetime and/or a discounted rate for such services. The lifecare benefit varies based upon the extent to which the resident's entrance fee is refundable. The pricing of entrance fees, refundability provisions, monthly service fees, and lifecare benefits are determined utilizing actuarial projections of the expected morbidity and mortality of the resident population. In the event the entrance fees and monthly service payments established for these communities are not sufficient to cover the cost of lifecare benefits granted to residents, our interest in the results of operations and cash flow of these communities and the venture could be adversely affected.

Residents of these entrance fee communities are guaranteed a living unit and nursing care at the community during their lifetime, even if the resident exhausts his or her financial resources and becomes unable to satisfy his or her obligations to the community. In addition, in the event a resident requires nursing care and there is insufficient capacity for the resident in the nursing facility at the community where the resident lives, the community must contract with a third party to provide such care. Although we screen potential residents to ensure that they have adequate assets, income, and reimbursements from government programs and third parties to pay their obligations to the entrance fee communities during their lifetime, we cannot provide assurance that such assets, income, and reimbursements will be sufficient in all cases. If insufficient, we or the entrance fee CCRC venture, as applicable,

would have rights of set-off against the refundable portions of the residents' deposits, and would also seek available reimbursement under Medicaid or other available programs. To the extent that the financial resources of some of the residents are not sufficient to pay for the cost of facilities and services provided to them, or in the event that these communities must pay third parties to provide nursing care to residents of these communities, our interest in the results of operations and cash flow of these communities and the venture would be adversely affected.

Termination, early or otherwise, or non-renewal of, or renewal on less-favorable terms, of our management arrangements will cause a loss in revenues and may negatively impact our results of operations and cash flow.

As of December 31, 2018, we managed 18 communities on behalf of unconsolidated ventures and 187 communities on behalf of third parties, which represented approximately 33.0% of our total senior housing capacity. Under our management arrangements, we receive management fees, which are generally determined by an agreed upon percentage of gross revenues (as defined in the management arrangement), as well as reimbursed expenses, which represent the reimbursement of certain expenses we incur on behalf of the owners. A majority of our management arrangements as of December 31, 2018 are interim management arrangements entered into in connection with prior lease terminations that may be terminated by either party on short notice and without any reason, have a remaining term of approximately one year or less, or may be terminated by the owner within the next approximately one-year or less. Generally either party to our management arrangements may terminate upon the occurrence of an event of default caused by the other party, generally subject to cure rights. Several long-term agreements also provide for early termination rights of the owner which may in some cases require an early termination fee. In some cases, subject to our cure rights, if any, community owners may terminate us as manager if any licenses or certificates necessary for operation are revoked, if we do not satisfy certain designated performance thresholds or if the community is sold to an unrelated third party. Also, in some instances, a community owner may terminate the management agreement relating to a particular community if we are in default under other management agreements relating to other communities owned by the same owner or its affiliates. Certain of our management agreements, both with unconsolidated ventures and with entities owned by third parties, provide that an event of default under the debt instruments applicable to the ventures or the entities owned by third parties that is caused by us may also be considered an event of default by us under the relevant management agreement, giving the non-Brookdale party to the management agreement the right to pursue the remedies provided for in the management agreement, potentially including termination of the management agreement. Further, in the event of default on a loan, the lender may have the ability to terminate us as manager. With respect to communities held in unconsolidated ventures, the management agreement generally may be terminated in connection with the sale by the venture partner of its interest in the venture or the sale of properties by the venture. During the year ending December 31, 2019, we anticipate terminations of our management arrangements with third parties as we transition to new operators our interim management on formerly owned or leased communities and our management on certain former unconsolidated ventures in which we sold our interest. Termination, early or otherwise, or non-renewal of, or renewal on less-favorable terms, of our management arrangements will cause a loss in revenues and could negatively impact our results of operations and cash flows.

The geographic concentration of our communities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas, which could negatively impact our revenues, results of operations and cash flow.

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

Termination of our resident agreements and vacancies in the living spaces we lease could adversely affect our occupancy, revenues, results of operations and cash flow.

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

difficult to predict. As a result, the living spaces we lease may be unoccupied for a period of time, which could adversely affect our occupancy, revenues, results of operations and cash flow.

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

Downturns in the housing markets could adversely affect the ability (or perceived ability) of seniors to afford our resident fees and entrance fees as our customers frequently use the proceeds from the sale of their homes to cover the cost of our fees. Specifically, if seniors have a difficult time selling their homes or their homes' values decrease, these difficulties could impact their ability to relocate into our communities or finance their stays at our communities with private resources. A downturn in the housing market could be initiated or exacerbated by a rising interest rate environment. If national or local housing markets experience protracted volatility, our occupancy rates, revenues, results of operations and cash flow could be negatively impacted.

The transition of management or unexpected departure of our key officers could harm our business.

We are dependent on the efforts of our senior management. During the past several years we have undergone changes in our senior management and may in the future experience further changes. The transition of management, the unforeseen loss or limited availability of the services of any of our executive leaders, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have an adverse effect on our business, results of operations and financial condition and be negatively perceived in the capital markets.

Our execution of our strategy may not be successful, and initiatives undertaken to execute on our strategic priorities may adversely affect our business, financial condition, results of operations, cash flow and the price of our common stock.

The success of our strategy depends on our ability to successfully identify and implement initiatives to execute on our strategic priorities, as well as factors outside of our control. Such initiatives may not be successful in achieving our expectations or may require more time and resources than expected to implement. There can be no assurance that our strategy or initiatives undertaken to execute on our strategic priorities will be successful and, as a result, such initiatives may adversely affect our business, financial condition, results of operations, cash flow and the price of our common stock.

Actions of activist stockholders could cause us to incur substantial costs, divert management's attention and resources and have an adverse effect on our business, results of operations and cash flow and the market price of our common stock.

We value constructive input from our stockholders and engage in dialogue with our stockholders regarding our governance practices, strategy and performance. However, activist stockholders may disagree with the composition of our Board of Directors or management, our strategy or capital allocation decisions and may seek to effect change through various strategies that range from private engagement to public campaigns, proxy contests, efforts to force proposals or transactions not supported by our Board of Directors and litigation. Responding to these actions may be costly and time-consuming, disrupt our operations, divert the attention of our Board of Directors, management and our associates and interfere with our ability to pursue our strategy and to attract and retain qualified Board and executive leadership. The perceived uncertainty as to our future direction that may result from actions of activist stockholders may also negatively impact our ability to attract and retain residents at our communities. We cannot provide assurance that constructive engagement with our stockholders will be successful. Any such stockholder activism may have an adverse effect on our business, results of operations and cash flow and the market price of our common stock.

Environmental contamination at any of our communities could result in substantial liabilities to us, which may exceed the value of the underlying assets and which could materially and adversely affect our financial condition, results of operations and cash flow.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property, such as us, may be held liable in certain circumstances for the costs of investigation, removal or remediation of, or related to the release of, certain hazardous or toxic substances, that could be located on, in, at or under a property, regardless of how such materials came to be located there. The cost of any required investigation, remediation, removal, mitigation, compliance, fines or personal or property damages and our liability therefore could exceed the property's value and/or our assets' value. In addition, the presence of such substances, or the failure to properly dispose of or remediate the damage caused by such substances, may adversely affect our ability to sell such property, to attract additional residents and retain existing residents, to borrow using such property as collateral or to develop or redevelop such property. In addition, such laws impose liability, which may be joint and several, for investigation, remediation, removal and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances as well as without regard to whether such

release or disposal was in compliance with law at the time it occurred. Although we do not believe that we have incurred such liabilities as would have a material adverse effect on our business, financial condition and results of operations, we could be subject to substantial future liability for environmental contamination that we have no knowledge about as of the date of this report and/or for which we may not be at fault.

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

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

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

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

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

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

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

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

We have been and are currently involved in litigation and claims, including putative class action claims from time to time, incidental to the conduct of our business which are generally comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. As a result, we maintain general liability and professional liability insurance policies in amounts and with coverage and deductibles we believe

are adequate, based on the nature and risks of our business, historical experience and industry standards. Our current policies are written on a claims-made basis and provide for deductibles for each claim. Accordingly, we are, in effect, self-insured for claims that are less than the deductible amounts and for claims or portions of claims that are not covered by such policies. If we experience a greater number of losses than we anticipate, or if certain claims are not ultimately covered by insurance, our results of operations and financial condition could be adversely affected.

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

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

We face periodic and routine reviews, audits and investigations by government agencies, and any adverse findings could negatively impact our business, financial condition, results of operations and cash flow.

The senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in reviews, audits, investigations, enforcement actions or litigation related to regulatory compliance matters. In addition, we are subject to various government reviews, audits and investigations to verify our compliance with Medicare and Medicaid programs and other applicable laws and regulations. CMS has engaged a number of third party firms, including Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), and Unified Program Integrity Contractors (UPIC), to conduct extensive reviews of claims data to evaluate the appropriateness of billings submitted for payment. Audit contractors may identify overpayments based on coverage requirements, billing and coding rules or other risk areas. In addition to identifying overpayments, audit contractors can refer suspected violations of law to government enforcement authorities. An adverse determination of government reviews, audits and investigations may result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, termination of participation in Medicare and Medicaid programs, and/or damage to the Company's business reputation. Our costs to respond to and defend any such audits, reviews and investigations may be significant and are likely to increase in the current enforcement environment, and any resulting sanctions or criminal, civil or regulatory penalties could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

The regulatory environment surrounding the senior living industry continues to evolve and intensify in the amount and type of laws and regulations affecting it, many of which vary from state to state. In addition, many senior living communities are subject to regulation and licensing by state and local health and social service agencies and other regulatory authorities. In several of the states there are different levels of care that can be provided based on the level of licensure. In addition, in several of the states in which we operate or intend to operate, assisted living and memory care communities, home health and hospice agencies and/or skilled nursing facilities require a certificate of need before the community or agency can be opened or the services at an existing community can be expanded. These requirements, and the increased enforcement thereof, could affect our ability to expand into new markets, to expand our services and communities in existing markets and, if any of our presently licensed communities were to operate outside of its licensing authority, may subject us to penalties including closure of the community. See "Item 1. Business-Government Regulation" for more information regarding regulation and enforcement in our industry.

Federal, state and local officials are increasingly focusing their efforts on enforcement of these laws and regulations. This is particularly true for large for-profit, multi-community providers like us. Future regulatory developments as well as mandatory increases in the scope and severity of deficiencies determined by survey or inspection officials could cause our operations to suffer. We are unable to predict the future course of federal, state and local legislation or regulation. If regulatory requirements increase, whether through enactment of new laws or regulations or changes in the enforcement of existing rules, our business, results of operations and cash flow could be adversely affected.

The intensified regulatory and enforcement environment impacts providers like us because of the increase in the number of inspections or surveys by governmental authorities and consequent citations for failure to comply with regulatory requirements. We also expend considerable resources to respond to federal and state investigations or other enforcement action. From time to time in the ordinary course of business, we receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. Although most inspection deficiencies are resolved through a plan of corrective action, the reviewing agency may have the authority to take further action against a licensed or certified facility, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal reimbursement programs or imposition of other sanctions, including criminal penalties. Furthermore, certain states may allow citations in one community to impact other communities in the state. Revocation of a license at a given community could therefore impact our ability to obtain new licenses or to renew existing licenses at other communities, which may also cause us to default under our debt and lease documents and/or trigger cross-defaults. The failure to comply with applicable legal and regulatory requirements could result in a material adverse effect to our business as a whole.

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

Additionally, since we provide services and operate communities that participate in federal and/or state healthcare reimbursement programs, we are subject to federal and state laws that prohibit anyone from presenting, or causing to be presented, claims for reimbursement which are false, fraudulent or are for items or services that were not provided as claimed. Similar state laws vary from state to state. Violation of any of these laws can result in loss of licensure, citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, or termination of participation in Medicare and Medicaid programs, which may also cause us to default under our debt and lease documents and/or trigger cross-defaults.

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

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

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

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

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

Following Hurricane Irma, legislation was adopted in the State of Florida in March 2018 that requires skilled nursing homes and assisted living communities in Florida to obtain generators and fuel necessary to sustain operations and maintain comfortable temperatures in the event of a power outage. We have made and will be required to make in 2019 an aggregate commitment of \$18.3 million to comply with these requirements. If other states or jurisdictions were to adopt similar legislation or regulation, the cost to comply with such requirements may be substantial.

The increased costs and capital expenditures that we may incur in order to comply with any of the above would result in a negative effect on our results of operations and financial condition.

Risks Related to Our Organization and Structure

Anti-takeover provisions in our organizational documents may discourage, delay or prevent a merger or acquisition that investors may consider favorable or prevent the removal of our current board of directors.

Certain provisions of our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger or acquisition that investors may consider favorable or prevent the removal of our current board of directors. Among these anti-takeover provisions is the classified structure of our Board of Directors pursuant to which our Board is divided into three classes of directors and each of our directors elected at or prior to the 2018 annual meeting of stockholders was elected to serve a three-year term. Although we are in the process of phasing out our classified board structure, our full Board will not begin standing for annual elections until the 2021 annual meeting of stockholders. Further, until the 2021 annual meeting of stockholders, directors may be removed from office only for cause. Additional anti-takeover provisions in our organizational documents that will hinder takeover attempts include:

- blank-check preferred stock;
- provisions preventing stockholders from calling special meetings or acting by written consent;
- advance notice requirements for stockholders with respect to director nominations and actions to be taken at annual meetings; and
- no provision in our amended and restated certificate of incorporation for cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election.

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

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

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

Risks Related to Our Common Stock

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

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, stockholders may be unable to resell their shares at or above their purchase price. The market price of our common stock may fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- variations in our quarterly results of operations and cash flow;
- changes in our operating performance and liquidity guidance;
- the contents of published research reports about us or the senior living, healthcare or real estate industries or the failure of securities analysts to cover our common stock;
- additions or departures of key management personnel;
- any increased indebtedness we may incur or lease obligations we may enter into in the future;
- actions by institutional stockholders;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- speculation or reports by the press or investment community with respect to us or the senior living, healthcare or real estate industries in general;
- proxy contests or other shareholder activism;
- increases in market interest rates that may lead purchasers of our shares to demand a higher yield;
- downturns in the real estate market or changes in market valuations of senior living communities;
- changes or proposed changes in laws or regulations affecting the senior living and healthcare industries or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market and economic conditions.

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

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

We may issue all of the shares of our common stock that are authorized but unissued (and not otherwise reserved for issuance under our stock incentive or purchase plans) without any action or approval by our stockholders. We may issue shares of common stock in connection with development, investment and acquisition opportunities, including acquisitions of senior living communities and operating companies. Any shares issued in connection with our acquisitions or otherwise would dilute the holdings of our current stockholders.

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

At December 31, 2018, approximately 186.6 million shares of our common stock were outstanding (excluding unvested restricted shares). All of the shares of our common stock are freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, or any shares otherwise subject to the limitations of Rule 144.

In addition, as of December 31, 2018, approximately 5.8 million shares of restricted common stock were outstanding under our 2014 Omnibus Incentive Plan, and we had availability to issue approximately 8.9 million additional shares under our 2014 Omnibus

Incentive Plan, our Associate Stock Purchase Plan, and our Director Stock Purchase Plan. The shares of our common stock issued or issuable pursuant to these plans are or will be registered under the Securities Act, and once any restrictions imposed on the shares and options granted under these plans expire, such shares of common stock will be available for sale into the public markets.

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

Section 382 of the Internal Revenue code contains rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of 50% of its stock over a three-year period, to utilize its net operating loss carryforward and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes involving stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company. Any such annual limitations may result in our being unable to utilize all of our net operating loss carryforwards generated in tax years prior to 2018 before their expiration.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Communities

As of December 31, 2018, we operated and managed 892 communities across 45 states, with the capacity to serve approximately 84,000 residents. As of December 31, 2018, we owned 344 communities, leased 343 communities, managed 18 communities on behalf of unconsolidated ventures, and managed 187 communities on behalf of third parties. Substantially all of our owned communities are subject to mortgages. The following table sets forth certain information regarding our owned, leased and managed communities as of December 31, 2018. Occupancy data includes the impact of managed communities.

State	Units	Occupancy	Number of Communities			Total
			Owned	Leased	Managed	
Florida	13,129	82%	44	32	25	101
Texas	10,482	84%	58	19	26	103
California	10,161	83%	26	27	33	86
Colorado	4,371	82%	11	13	14	38
Ohio	3,565	81%	21	16	6	43
North Carolina	3,491	87%	7	50	1	58
Illinois	3,179	89%	2	10	4	16
Washington	2,809	90%	14	19	—	33
Oregon	2,503	90%	8	15	10	33
Arizona	2,347	87%	14	13	1	28
New York	2,167	78%	16	9	4	29
Michigan	2,118	83%	9	23	1	33
Tennessee	1,815	92%	12	10	5	27
South Carolina	1,544	78%	5	7	10	22
Kansas	1,264	92%	8	11	1	20
Massachusetts	1,263	79%	3	3	4	10
Georgia	1,208	86%	5	3	9	17
Pennsylvania	1,204	86%	7	3	1	11
New Jersey	1,148	88%	7	5	1	13
Virginia	1,146	86%	7	3	2	12
Alabama	1,134	88%	6	—	2	8
Missouri	1,096	89%	2	—	3	5
Indiana	1,091	77%	4	8	1	13

State	Units	Occupancy	Number of Communities			
			Owned	Leased	Managed	Total
Oklahoma	1,005	89%	3	16	5	24
Rhode Island	907	77%	1	2	4	7
Minnesota	836	75%	—	12	4	16
Connecticut	828	68%	2	3	3	8
Wisconsin	760	87%	5	7	3	15
Kentucky	692	75%	1	1	3	5
Idaho	605	92%	7	1	—	8
Maryland	560	91%	2	1	3	6
Arkansas	494	86%	4	—	1	5
Louisiana	486	85%	6	—	—	6
New Mexico	457	72%	2	1	1	4
Nevada	408	83%	4	—	1	5
Mississippi	386	80%	5	—	—	5
Nebraska	379	91%	—	—	4	4
Utah	368	69%	—	—	4	4
Montana	238	92%	1	—	2	3
Delaware	199	76%	2	—	1	3
Iowa	106	69%	—	—	1	1
Vermont	101	92%	1	—	—	1
West Virginia	93	95%	1	—	—	1
New Hampshire	90	81%	1	—	—	1
Wyoming	46	81%	—	—	1	1
Total	84,279	84%	344	343	205	892

Corporate Offices

Our main corporate offices are leased, including our 143,065 square foot headquarters facility in Brentwood, Tennessee and our 156,016 square foot shared service facility in Milwaukee, Wisconsin. During 2018, we eliminated our smaller regional support offices.

Item 3. Legal Proceedings.

The information contained in Note 18 to the consolidated financial statements contained in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

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

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol "BKD". As of February 12, 2019, there were approximately 364 holders of record of our common stock.

Dividend Policy

On December 30, 2008, our Board of Directors voted to suspend our quarterly cash dividend indefinitely and no dividends were declared since that time. Although we anticipate that, in the longer-term, we may pay regular quarterly dividends to the holders of our common stock, over the near term we anticipate deploying capital resources to fund our planned capital expenditures, our plans to expand our healthcare services to additional residents and seniors living outside of our communities, and to reduce our debt and lease leverage. Accordingly, we do not expect to pay cash dividends on our common stock for the foreseeable future.

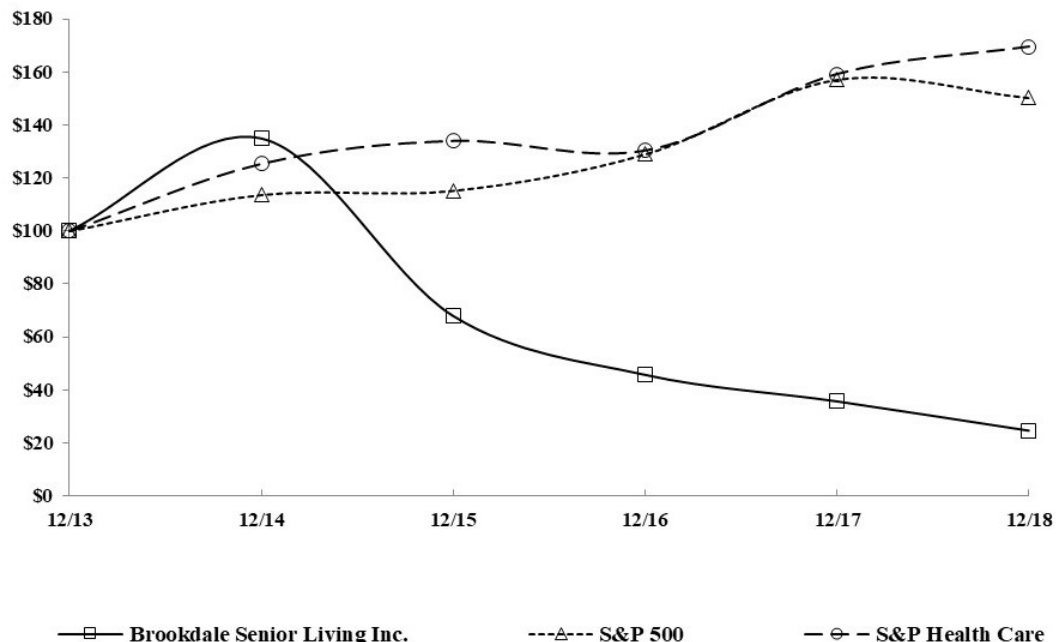
Our ability to pay and maintain cash dividends in the future will be based on many factors, including then-existing contractual restrictions or limitations, our ability to execute our strategy, our ability to negotiate favorable lease and other contractual terms, anticipated operating expense levels, our capital expenditure plans, the level of demand for our units, occupancy rates, entrance fee sales results, the rates we charge, our liquidity position and actual results that may vary substantially from estimates. Some of the factors are beyond our control and a change in any such factor could affect our ability to pay or maintain dividends. We can give no assurance as to our ability to pay or maintain dividends in the future. As we have done in the past, we may also pay dividends in the future that exceed our net income for the relevant period as calculated in accordance with U.S. GAAP.

Share Price Performance Graph

The following graph compares the five-year cumulative total return for Brookdale common stock with the comparable cumulative return of the S&P 500 index and the S&P Health Care Index. The graph assumes that a person invested \$100 in Brookdale stock and each of the indices on December 31, 2013 and that dividends are reinvested. The comparisons in this graph are not intended to forecast or be indicative of possible future performance of Brookdale shares or such indices.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Brookdale Senior Living Inc., the S&P 500 Index and the S&P Health Care Index



*\$100 invested on 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	12/13	12/14	12/15	12/16	12/17	12/18
Brookdale Senior Living Inc.	\$ 100.00	\$ 134.92	\$ 67.92	\$ 45.70	\$ 35.69	\$ 24.65
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P Health Care	100.00	125.34	133.97	130.37	159.15	169.44

The performance graph and related information shall not be deemed to be filed as part of this Annual Report on Form 10-K and do not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates them by reference into such filing.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table contains information regarding purchases of our common stock made during the quarter ended December 31, 2018 by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (\$ in thousands) ⁽²⁾
10/1/2018 - 10/31/2018	—	—	—	90,360
11/1/2018 - 11/30/2018	13,658	7.67	—	90,360
12/1/2018 - 12/31/2018	1,296,394	6.64	1,280,802	81,860
Total	1,310,052	6.65	1,280,802	

- (1) Includes 1,280,802 shares purchased in open market transactions pursuant to the publicly announced repurchase program summarized in footnote (2) below and the following number of shares withheld to satisfy tax liabilities due upon the vesting of restricted stock: November 2018 - 13,658 shares and December 2018 - 15,592 shares. The average price paid per share for such share withholding is based on the closing price per share on the vesting date of the restricted stock or, if such date is not a trading day, the trading day immediately prior to such vesting date.
- (2) On November 1, 2016, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million in the aggregate of its common stock. The share repurchase program is intended to be implemented through purchases made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program will be held as treasury shares. As of December 31, 2018, approximately \$81.9 million remained available under the repurchase program.

Item 6. Selected Financial Data.

This selected financial data should be read in conjunction with the information contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data." Our historical statement of operations data and balance sheet data as of and for each of the years in the five-year period ended December 31, 2018 have been derived from our audited financial statements. The results of operations for any particular period are not necessarily indicative of results for any future period.

Our results reflect our acquisition by merger of Emeritus Corporation subsequent to July 31, 2014, the closing date of the transaction. At the closing of the transaction, the size of our consolidated portfolio increased by 493 communities (44,349 units). On August 29, 2014, we completed several transactions with HCP, including our entering into an unconsolidated venture (the "CCRC Venture") with HCP in which we obtained a 51% ownership interest and to which we contributed all but two of our legacy Brookdale entry fee CCRCs, our entering into an unconsolidated venture (the "HCP 49 Venture") with HCP in which we obtained a 20% ownership interest and to which HCP contributed 49 communities leased and historically operated by Emeritus, and our amending and restating the terms of certain existing triple-net leases between us and HCP (including those acquired in the Emeritus merger). Our results reflect our previously existing ownership, lease and/or management interests through August 29, 2014, and reflect our venture and management interests and amended lease terms subsequent to such date.

We completed dispositions, through sales and lease terminations, of 111 communities (10,848 units), 108 communities (10,325 units) and 57 communities (4,039 units) during the years ended December 31, 2018, 2017 and 2016, respectively. See Note 4 to the consolidated financial statements for more information regarding our disposition and other transaction activity.

For the Years Ended December 31,

(in thousands, except per share and other operating data)

	2018	2017	2016	2015	2014
Total revenue	\$ 4,531,426	\$ 4,747,116	\$ 4,976,980	\$ 4,960,608	\$ 3,831,706
Facility operating expense	2,453,328	2,602,155	2,799,402	2,788,862	2,210,368
General and administrative expense	250,495	255,446	313,409	370,579	280,267
Transaction costs	8,980	22,573	3,990	8,252	66,949
Facility lease expense	303,294	339,721	373,635	367,574	323,830
Depreciation and amortization	447,455	482,077	520,402	733,165	537,035
Goodwill and asset impairment ⁽¹⁾	489,893	409,782	248,515	57,941	9,992
Loss on facility lease termination and modification, net	162,001	14,276	11,113	76,143	—
Costs incurred on behalf of managed communities	1,010,229	891,131	737,597	723,298	488,170
Total operating expense	5,125,675	5,017,161	5,008,063	5,125,814	3,916,611
Income (loss) from operations	(594,249)	(270,045)	(31,083)	(165,206)	(84,905)
Interest income	9,846	4,623	2,933	1,603	1,343
Interest expense	(280,269)	(326,154)	(385,617)	(388,764)	(248,188)
Debt modification and extinguishment costs	(11,677)	(12,409)	(9,170)	(7,020)	(6,387)
Equity in (loss) earnings of unconsolidated ventures	(8,804)	(14,827)	1,660	(804)	171
Gain on sale of assets, net	293,246	19,273	7,218	1,270	446
Other non-operating income	14,099	11,418	14,801	8,557	6,789
Income (loss) before income taxes	(577,808)	(588,121)	(399,258)	(550,364)	(330,731)
Benefit (provision) for income taxes	49,456	16,515	(5,378)	92,209	181,305
Net income (loss)	(528,352)	(571,606)	(404,636)	(458,155)	(149,426)
Net (income) loss attributable to noncontrolling interest	94	187	239	678	436
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	\$ (528,258)	\$ (571,419)	\$ (404,397)	\$ (457,477)	\$ (148,990)
Basic and diluted net income (loss) per share attributable to Brookdale Senior Living Inc. common stockholders	\$ (2.82)	\$ (3.07)	\$ (2.18)	\$ (2.48)	\$ (1.01)
Weighted average shares of common stock used in computing basic and diluted net income (loss) per share	187,468	186,155	185,653	184,333	148,185
Other Operating Data:					
Number of communities operated and managed (at end of period)	892	1,023	1,055	1,123	1,143
Total units operated and managed					
Period end	84,279	100,582	102,768	107,786	110,219
Weighted average	94,562	101,779	106,122	109,342	84,299
RevPAR ⁽²⁾	\$ 3,972	\$ 3,890	\$ 3,845	\$ 3,742	\$ 2,663
Owned/leased communities occupancy rate (weighted average)	84.3%	85.0%	86.0%	86.8%	88.3%
RevPOR ⁽³⁾	\$ 4,712	\$ 4,578	\$ 4,468	\$ 4,310	\$ 4,357

(1) During the year ended December 31, 2018, we recorded \$489.9 million of non-cash impairment charges. The impairment

charges included \$351.7 million of goodwill within the Assisted Living and Memory Care segment, \$78.0 million of property, plant and equipment and leasehold intangibles for certain communities, \$33.4 million related to investments in unconsolidated ventures, \$15.6 million related to assets held for sale, and \$9.1 million of intangible assets for health care licenses within the Health Care Services segment. During the year ended December 31, 2017, we recorded impairment

charges of \$409.8 million, primarily for goodwill within the Assisted Living and Memory Care segment and property, plant and equipment and leasehold intangibles for certain communities. During the year ended December 31, 2016, we recorded impairment charges of \$248.5 million, primarily for property, plant and equipment and leasehold intangibles for certain communities. See Note 5 to the consolidated financial statements for more information regarding our impairment charges.

- (2) RevPAR, or average monthly senior housing resident fee revenues per available unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of available units in the corresponding portfolio for the period, divided by the number of months in the period.
- (3) RevPOR, or average monthly senior housing resident fee revenues per occupied unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of occupied units in the corresponding portfolio for the period, divided by the number of months in the period.

As of December 31,

<i>(in millions)</i>	2018	2017	2016	2015	2014
Cash and cash equivalents	\$ 398.3	\$ 222.6	\$ 216.4	\$ 88.0	\$ 104.1
Marketable securities	\$ 14.9	\$ 291.8	\$ —	\$ —	\$ —
Total assets	\$ 6,467.3	\$ 7,675.4	\$ 9,217.7	\$ 10,048.6	\$ 10,417.5
Total long-term debt and line of credit	\$ 3,640.2	\$ 3,870.7	\$ 3,559.6	\$ 3,942.8	\$ 3,597.0
Total capital and financing lease obligations	\$ 874.5	\$ 1,271.6	\$ 2,485.5	\$ 2,489.6	\$ 2,649.2
Total equity	\$ 1,018.4	\$ 1,530.3	\$ 2,077.7	\$ 2,458.7	\$ 2,882.2

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

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

As of December 31, 2018, we had five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. Prior to this Annual Report on Form 10-K, we referred to the Independent Living segment as our Retirement Centers segment, the Assisted Living and Memory Care segment as our Assisted Living segment, and the Health Care Services segment as our Brookdale Ancillary Services segment. The name changes had no effect on the underlying methodology related to, or results of operations of, our segments.

Executive Overview and Recent Developments

Our Business

As of December 31, 2018, we are the largest operator of senior living communities in the United States based on total capacity, with 892 communities in 45 states and the ability to serve approximately 84,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. We operate and manage independent living, assisted living, memory care and continuing care retirement communities ("CCRCs"). We also offer a range of home health, hospice and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities.

We believe that we operate in the most attractive sectors of the senior living industry, and our goal is to be the first choice in senior living by being the nation's most trusted and effective senior living provider and employer. With our range of community and service offerings, we believe that we are positioned to take advantage of favorable demographic trends over time. Our community and service offerings combine housing with hospitality and healthcare services. Our senior living communities offer residents a supportive home-like setting, assistance with activities of daily living ("ADL") such as eating, bathing, dressing, toileting and

transferring/walking and, in certain communities, licensed skilled nursing services. We also provide home health, hospice and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities. By providing residents with a range of service options as their needs change, we provide greater continuity of care, enabling seniors to age-in-place, which we believe enables them to maintain residency with us for a longer period of time. The ability of residents to age-in-place is also beneficial to our residents and their families who are concerned with care decisions for their elderly relatives.

Strategy

Our strategy is to win locally by providing choices for high quality care and personalized service by caring associates while leveraging our industry-leading scale and experience. We believe that successfully executing on our strategy will improve our operations and provide attractive long-term returns to our stockholders. Our strategy is focused on three priorities:

- *Associates.* Brookdale's culture is based on servant leadership, and our associates are the key to attracting and caring for residents and patients and improving our operations. Through this strategic priority, we intend to attract, engage, develop and retain the best associates by maintaining a compelling value proposition in the areas of compensation, leadership, career growth and meaningful work. We continue to execute on our three-year plan initiated in 2017 to invest above the industry to improve our associate total rewards program and our performance management, training and development program for our community leaders and staff. We believe engaged associates lead to an enhanced resident experience and lower turnover, leading to improved operations.
- *Residents, Patients and Their Families.* Brookdale continues to be driven by its mission-to enrich the lives of those we serve with compassion, respect, excellence and integrity. We believe that earning the trust of our residents, patients and their families will allow us to build relationships that create passionate advocates and generate referrals. Through this strategic priority, we intend to provide excellent customer service and expand referral development programs in order to earn the trust of our customers and the communities in which we operate and ultimately increase our move-ins and reduce our controllable move-outs.
- *Winning Locally and Leveraging Scale Effectively.* We intend to win locally while also leveraging our scale. With this priority, we are committed to completing our community-level capital expenditures as planned, maintaining the quality of our communities and their operations, and aligning our sales, marketing and operations teams to drive top line performance. We also are executing on plans to improve our sales process, to prioritize communities with the most opportunities for improvements and to ensure that our communities are ready for new competition.

In the near term, we plan to focus on our operations improvement and the expansion of our healthcare services to residents and seniors living outside of our communities. We also plan to make significant additional near-term investments in our communities, including increased spend attributable to major building infrastructure projects, in order to ensure that our communities are in appropriate physical condition to support our strategy and to protect the value of our community portfolio. We also plan to complete our remaining real estate transactions announced in 2018. This plan includes the terminations of management arrangements on communities that we previously leased or managed on behalf of former unconsolidated ventures and exercising our options to cause terminations of our triple-net lease obligations on communities with annual base rent of up to \$35 million. We will also continue to invest in our Program Max initiative through which we expand, renovate, reposition or redevelop selected existing senior living communities.

Over the longer term, we plan to further invest for growth and opportunistically return capital to stockholders while maintaining a strong balance sheet. We plan to explore additional products and services that we may offer to our residents and, where opportunities arise, pursue development, investment and acquisition opportunities such as selective acquisitions of senior living communities and operating companies. Any such activity may be pursued on our own or through venture investments with third parties. In addition, we will continue to evaluate our owned and leased community portfolios for opportunities to better align our communities to our strategy.

We believe that our successful execution on these strategic priorities and our longer-term plans will allow us to achieve our goal to be the first choice in senior living by being the nation's most trusted and effective senior living provider and employer.

Portfolio Optimization and Other Transaction Updates

Overview

During 2016 through 2018 we undertook an initiative to optimize our community portfolio under which we disposed of owned and leased communities and restructured leases in order to simplify and streamline our business, to increase the quality and

durability of our cash flow, to improve our liquidity, and to reduce our debt and lease leverage. Further, in 2018 we evaluated our owned-community portfolio for opportunities to monetize select high-value communities.

From 2016 through 2018, we disposed of an aggregate of 75 owned communities (5,396 units) as a result of these initiatives and other transactions (50 in 2016, 3 in 2017 and 22 in 2018). We also entered into agreements with our largest lessors that restructured a significant portion of our triple-net lease obligations. As a result of the transactions with HCP, Inc. ("HCP") announced in 2016 and 2017 and Ventas, Inc. ("Ventas") and Welltower Inc. ("Welltower") announced in 2018, as well as other lease expirations and terminations, our triple-net lease obligations on an aggregate of 201 communities (19,816 units) were terminated from 2016 to 2018 (7 in 2016, 105 in 2017 and 89 in 2018). During this period we also sold our ownership interests in seven unconsolidated ventures and acquired six communities that we previously leased or managed. As of December 31, 2018, we owned 344 communities (31,869 units), leased 343 communities (24,623 units), managed 18 communities (7,426 units) on behalf of unconsolidated ventures, and managed 187 communities (20,361 units) on behalf of third parties.

During the year ending December 31, 2019, we expect to close on the dispositions of 13 owned communities (1,686 units) classified as held for sale as of December 31, 2018. For the year we also anticipate terminations of our management arrangements with third parties as we transition to new operators our interim management on formerly owned or leased communities and our management on certain former unconsolidated ventures in which we sold our interest. The closings of the various pending and expected transactions are, or will be, subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. However, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

Summaries of the foregoing transactions, and their impact on our results of operations, are below. See also Note 4 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about the transactions.

2018 Welltower Lease and RIDEA Venture Restructuring

On June 27, 2018, we announced that we had entered into definitive agreements with Welltower. The components of the agreements include:

- *Lease Terminations.* The Company and Welltower agreed to early termination of our triple-net lease obligations on 37 communities (4,095 units) effective June 30, 2018. The communities were part of two lease portfolios due to mature in 2028 (27 communities; 3,175 units) and 2020 (10 communities; 920 units). We paid Welltower an aggregate lease termination fee of \$58.0 million. We agreed to manage the foregoing 37 communities on an interim basis until the communities have been transitioned to new managers, and such communities are reported in the Management Services segment during such interim period. We recognized a \$22.6 million loss on lease termination during the year ended December 31, 2018 for the amount by which the aggregate lease termination fee exceeded the net carrying value of our assets and liabilities under operating and capital leases as of the lease termination date.
- *Future Lease Terminations.* The parties separately agreed to allow us to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and we would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.
- *RIDEA Restructuring.* We sold our 20% equity interest in our Welltower RIDEA venture to Welltower effective June 30, 2018 for net proceeds of \$33.5 million (for which we recognized a \$14.7 million gain on sale). We agreed to continue to manage the communities in the venture on an interim basis until the communities have been transitioned to new managers, and such communities are reported in the Management Services segment during such interim period.

We also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities; 1,128 units). After conclusion of the foregoing lease expirations, we continue to operate 74 communities (3,683 units) under triple-net leases with Welltower, and our remaining lease agreements with Welltower contain an objective change of control standard that allows us to engage in certain change of control and other transactions without the need to obtain Welltower's consent, subject to the satisfaction of certain conditions.

2018 Ventas Lease Portfolio Restructuring

On April 26, 2018, we entered into several agreements to restructure a portfolio of 128 communities (10,567 units) we leased from Ventas as of such date, including a Master Lease and Security Agreement (the "Ventas Master Lease"). The Ventas Master Lease

amended and restated prior leases comprising an aggregate portfolio of 107 communities (8,459 units) into the Ventas Master Lease. Under the Ventas Master Lease and other agreements entered into on April 26, 2018, the 21 additional communities (2,107 units) leased by us from Ventas pursuant to separate lease agreements have been or will be combined automatically into the Ventas Master Lease upon the first to occur of Ventas' election or the repayment of, or receipt of lender consent with respect to, mortgage debt underlying such communities (17 of which have been and four will be combined into the Ventas Master Lease). We and Ventas agreed to observe, perform and enforce such separate leases as if they had been combined into the Ventas Master Lease effective April 26, 2018, to the extent not in conflict with any mortgage debt underlying such communities. The transaction agreements with Ventas further provide that the Ventas Master Lease and certain other agreements between us and Ventas will be cross-defaulted.

The initial term of the Ventas Master Lease ends December 31, 2025, with two 10-year extension options available to us. In the event we consummate a change of control transaction on or before December 31, 2025, the initial term of the Ventas Master Lease will be extended automatically through December 31, 2029. The Ventas Master Lease and separate lease agreements with Ventas, which are guaranteed at the parent level by us, provided for total rent in 2018 of \$175.0 million for the 128 communities, including the pro-rata portion of an \$8.0 million annual rent credit for 2018. We will receive an annual rent credit of \$8.0 million in 2019, \$7.0 million in 2020 and \$5.0 million thereafter; provided, that we consummate a change of control transaction prior to 2021, the annual rent credit will be reduced to \$5.0 million. Effective on January 1, 2019 and in succeeding years, the annual minimum rent is subject to an escalator equal to the lesser of 2.25% or four times the Consumer Price Index ("CPI") increase for the prior year (or zero if there was a CPI decrease).

The Ventas Master Lease requires us to spend (or escrow with Ventas) a minimum of \$2,000 per unit per 24-month period commencing with the 24-month period ending December 31, 2019 and thereafter each 24-month period ending December 31 during the lease term, subject to annual increases commensurate with the escalator beginning with the second lease year of the first extension term (if any). If we consummate a change of control transaction, we will be required within 36 months following the closing of such transaction to invest (or escrow with Ventas) an aggregate of \$30.0 million in the communities for revenue-enhancing capital projects.

Under the definitive agreements with Ventas, we, at the parent level, must satisfy certain financial covenants (including tangible net worth and leverage ratios) and may consummate a change of control transaction without the need for consent of Ventas so long as certain objective conditions are satisfied, including the post-transaction guarantor's satisfying certain enhanced minimum tangible net worth and maximum leverage ratio, having minimum levels of operational experience and reputation in the senior living industry, and paying a change of control fee of \$25.0 million to Ventas.

At our option, which must be exercised on or before April 26, 2019, we may provide notice to Ventas of our election to direct Ventas to market for sale one or more communities with up to approximately \$30.0 million of annual minimum rent. Upon receipt of such notice, Ventas will be obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community will be subject to Ventas' receiving a purchase price in excess of a minimum sale price to be mutually agreed by us and Ventas and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%.

We recognized a \$125.7 million non-cash loss on lease modification in the year ended December 31, 2018, primarily for the extensions of the triple-net lease obligations for communities with lease terms that are unfavorable to us given current market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases.

2017 HCP Master Lease Transaction and RIDEA Ventures Restructuring

On November 2, 2017, we announced that we had entered into a definitive agreement for a multi-part transaction with HCP. As part of such transaction, we entered into an Amended and Restated Master Lease and Security Agreement ("HCP Master Lease") with HCP effective as of November 1, 2017. The components of the multi-part transaction include:

- *Master Lease Transactions.* We and HCP amended and restated triple-net leases covering substantially all of the communities we leased from HCP as of November 1, 2017 into the HCP Master Lease. During the year ended December 31, 2018, we acquired two communities formerly leased (208 units) for an aggregate purchase price of \$35.4 million and leases with respect to 33 communities (3,123 units) were terminated, and such communities were removed from the HCP Master Lease, which completed the terminations of leases as provided in the HCP Master Lease. We agreed to manage communities for which leases were terminated on an interim basis until the communities have been transitioned to new managers, and such communities

are reported in the Management Services segment during such interim period. We continue to lease 43 communities pursuant to the terms of the HCP Master Lease, which have the same lease rates and expiration and renewal terms as the applicable prior instruments, except that effective January 1, 2018, we received a \$2.5 million annual rent reduction for two communities. The HCP Master Lease also provides that we may engage in certain change in control and other transactions without the need to obtain HCP's consent, subject to the satisfaction of certain conditions.

- *RIDEA Ventures Restructuring.* Pursuant to the multi-part transaction agreement, HCP acquired our 10% ownership interest in one of our RIDEA ventures with HCP in December 2017 for \$32.1 million (for which we recognized a \$7.2 million gain on sale) and our 10% ownership interest in the remaining RIDEA venture with HCP in March 2018 for \$62.3 million (for which we recognized a \$41.7 million gain on sale). We provided management services to 59 communities (9,585 units) on behalf of the two RIDEA ventures as of November 1, 2017. Pursuant to the multi-part transaction agreement, we acquired one community (137 units) for an aggregate purchase price of \$32.1 million in January 2018 and three communities (650 units) for an aggregate purchase price of \$207.4 million in April 2018 and retained management of 18 of such communities (3,276 units). The amended and restated management agreements for such 18 communities have a term set to expire in 2030, subject to certain early termination rights. In addition, HCP will be entitled to sell or transition operations and/or management of 37 of such communities. Management agreements for 31 such communities (4,849 units) were terminated by HCP during the year ended December 31, 2018 (for which we recognized an \$8.7 million non-cash management contract termination gain) and we expect the termination of management agreements on the remaining six communities (673 units) to occur during 2019.

We financed the foregoing community acquisitions with non-recourse mortgage financing and proceeds from the sales of our ownership interest in the unconsolidated ventures. See Note 9 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information regarding the non-recourse first mortgage financing.

Blackstone Venture

On March 29, 2017, we and affiliates of Blackstone Real Estate Advisors VIII L.P. (collectively, "Blackstone") formed a venture (the "Blackstone Venture") that acquired 64 senior housing communities for a purchase price of \$1.1 billion. We had previously leased the 64 communities from HCP under long-term lease agreements with a remaining average lease term of approximately 12 years. At the closing, the Blackstone Venture purchased the 64-community portfolio from HCP subject to the existing leases, and we contributed our leasehold interests for 62 communities and a total of \$179.2 million in cash to purchase a 15% equity interest in the Blackstone Venture, terminate leases, and fund our share of closing costs. As of the formation date, we continued to operate two of the communities under lease agreements and began managing 60 of the communities on behalf of the venture under a management agreement with the venture. Two of the communities were managed by a third party for the venture.

During the third quarter of 2018, leases for the two communities owned by the Blackstone Venture were terminated, and we sold our 15% equity interest in the Blackstone Venture to Blackstone. We paid Blackstone an aggregate fee of \$2.0 million to complete the multi-part transaction.

2016 HCP Agreements

On November 1, 2016, we announced that we had entered into agreements to, among other things, terminate triple-net leases with respect to 97 communities that we leased from HCP, four of which were contributed to an existing unconsolidated venture in which we held an equity interest and 64 of which were acquired by the Blackstone Venture described above. In addition to the formation of the Blackstone Venture, the transactions included the following components with respect to 33 communities:

- We and HCP agreed to terminate triple-net leases with respect to eight communities (867 units). HCP agreed to contribute immediately thereafter four of such communities, consisting of 527 units, to an existing unconsolidated venture with HCP in which we held a 10% equity interest. During the three months ended December 31, 2016, the triple-net leases with respect to seven communities (773 units) were terminated and HCP contributed four of the communities to the existing unconsolidated venture. The triple-net lease with respect to the remaining community was terminated during January 2017.
- We and HCP agreed to terminate triple-net leases with respect to 25 communities (2,031 units). During the year ended December 31, 2017, our triple-net lease obligations with respect to such communities were terminated. We agreed to manage communities for which leases were terminated on an interim basis until the communities were transitioned to new managers, and such communities were reported in the Management Services segment during such interim period.

Completed and Planned Dispositions of Owned Communities

During the year ended December 31, 2018, we completed the sale of 22 owned communities (1,819 units) for cash proceeds of \$380.7 million, net of transaction costs. Nineteen of such dispositions were part of our plan announced in 2018, including the sale of Brookdale Battery Park on November 1, 2018 for which we received proceeds of approximately \$144 million, net of associated debt and transaction costs, and the sale of 18 other communities on December 20, 2018 for which we received proceeds of approximately \$49 million, net of associated debt and transaction costs.

During the year ended December 31, 2017, we completed the sale of three owned communities (311 units) for cash proceeds of \$8.2 million net of associated transaction costs, and during the year ended December 2016 we completed the sale of 50 owned communities (3,266 units) for cash proceeds of \$297.9 million net of associated transaction costs.

As of December 31, 2018, 13 communities (1,686 units) were classified as held for sale, resulting in \$93.1 million being recorded as assets held for sale and \$31.2 million of mortgage debt being included in the current portion of long-term debt within the consolidated balance sheet with respect to such communities. This debt will either be repaid with the proceeds from the sales or be assumed by the prospective purchasers. Assets held for sale as of December 31, 2018 include several communities under contract, and we continue to market several other communities, as part of our real estate strategy announced in 2018 to sell owned communities generating an aggregate of more than \$250 million of proceeds, net of associated debt and transaction costs.

Summary of Completed and Planned Dispositions

The following tables set forth, for the periods indicated, the amounts included within our consolidated financial data for the 276 communities that we disposed through sales and lease terminations for the years ended December 31, 2018 and 2017 and 2016 through the respective disposition dates:

	Year Ended December 31, 2018		
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 599,977	\$ 81,280	\$ 518,697
Assisted Living and Memory Care	1,995,851	205,241	1,790,610
CCRCs	416,408	15,965	400,443
Senior housing resident fees	3,012,236	302,486	2,709,750
Facility operating expense			
Independent Living	359,368	48,154	311,214
Assisted Living and Memory Care	1,366,869	145,106	1,221,763
CCRCs	324,196	14,542	309,654
Senior housing facility operating expense	2,050,433	207,802	1,842,631
Cash lease payments	\$ 457,388	\$ 78,264	\$ 379,124

Year Ended December 31, 2017

<i>(in thousands)</i>	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
Resident fees			
Independent Living	\$ 654,196	\$ 152,190	\$ 502,006
Assisted Living and Memory Care	2,210,688	423,302	1,787,386
CCRCs	468,994	78,392	390,602
Senior housing resident fees	3,333,878	653,884	2,679,994
Facility operating expense			
Independent Living	382,779	90,134	292,645
Assisted Living and Memory Care	1,461,630	294,528	1,167,102
CCRCs	362,832	68,702	294,130
Senior housing facility operating expense	2,207,241	453,364	1,753,877
Cash lease payments	\$ 552,903	\$ 172,442	\$ 380,461

Year Ended December 31, 2016

<i>(in thousands)</i>	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
Resident fees			
Independent Living	\$ 679,503	\$ 189,205	\$ 490,298
Assisted Living and Memory Care	2,419,459	642,782	1,776,677
CCRCs	592,826	201,613	391,213
Senior housing resident fees	3,691,788	1,033,600	2,658,188
Facility operating expense			
Independent Living	384,973	110,014	274,959
Assisted Living and Memory Care	1,542,642	443,137	1,099,505
CCRCs	459,417	169,297	290,120
Senior housing facility operating expense	2,387,032	722,448	1,664,584
Cash lease payments	\$ 622,886	\$ 259,114	\$ 363,772

The following table sets forth the number of communities and units in our senior housing segments disposed through sales and lease terminations during the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,		
	2018	2017	2016
Number of communities			
Independent Living	17	10	2
Assisted Living and Memory Care	91	86	52
CCRCs	3	12	3
Total	111	108	57
Total units			
Independent Living	2,864	2,078	206
Assisted Living and Memory Care	7,437	5,858	2,954
CCRCs	547	2,389	879
Total	10,848	10,325	4,039

The results of operations of the 13 communities held for sale as of December 31, 2018 are reported in the following segments within the consolidated financial statements: Assisted Living and Memory Care (8 communities; 797 units) and CCRCs (5 communities; 889 units). The following table sets forth the amounts included within our consolidated financial data for these 13 communities for the year ended December 31, 2018:

<i>(in thousands)</i>	Amounts Attributable to Planned Dispositions
Resident fees	
Assisted Living and Memory Care	\$ 19,940
CCRCs	42,724
Senior housing resident fees	\$ 62,664
Facility operating expense	
Assisted Living and Memory Care	\$ 18,500
CCRCs	39,740
Senior housing facility operating expense	\$ 58,240

Other Recent Developments

Increased Competitive Pressures

New openings of senior housing communities has subjected the senior housing industry and us to increased competitive pressures in recent years. Data from the National Investment Center for the Seniors Housing & Care Industry ("NIC") shows that industry occupancy began to decrease starting in 2016 as a result of new openings and oversupply. During and since 2016 we have experienced an elevated rate of competitive new openings, with significant new competition opening in several of our markets, which has adversely affected our occupancy, revenues, results of operations and cash flow. We expect the elevated rate of competitive new openings and pressures on our occupancy and rate growth to continue through 2019. Such increased level of new openings and oversupply, as well as lower levels of unemployment generally, have also contributed to wage pressures and increased competition for community leadership and personnel. We continue to address new competition by focusing on operations with the objective to ensure high customer satisfaction, retain key leadership and actively engage district and regional management in community operations; enhancing our local and national marketing and public relations efforts; and evaluating current community position relative to competition and repositioning if necessary (e.g., services, amenities, programming and price). We also continue to execute on our 3-year plan initiated in 2017 to invest above industry to improve the total rewards program and performance management, training and development program for our community leaders and staff.

Planned Capital Expenditures

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. We expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

2018 Leadership Changes

During 2018 we made several changes to our key leadership. Our Board of Directors appointed Lucinda M. Baier, who had served as our Chief Financial Officer since 2015, as our President and Chief Executive Officer and member of our Board of Directors effective February 28, 2018. An interim chief financial officer joined the company in March 2018 and served until Steven E. Swain joined the Company as our Executive Vice President and Chief Financial Officer effective September 4, 2018. In addition to the departure of our former President and Chief Executive Officer, our former Executive Vice President and Chief Administrative Officer and Executive Vice President and Chief People Officer stepped down from such roles in March 2018 and December 2018, respectively.

Program Max Initiative

During 2018 we made continued progress on our Program Max initiative under which we expand, renovate, redevelop and reposition certain of our existing communities where economically advantageous. For the year ended December 31, 2018, we invested \$24.7 million on Program Max projects, net of \$1.7 million of third party lessor reimbursements, which included the completion of five conversion projects. We currently have six Program Max projects that have been approved, most of which have begun construction and are expected to generate 69 net new units.

Tax Reform

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. The Tax Act reformed the United States corporate income tax code, including a reduction to the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminated alternative minimum tax (AMT) and the 20-year carryforward limitation for net operating losses incurred after December 31, 2017, and imposes a limit on the usage of net operating losses incurred after such date equal to 80% of taxable income in any given year. The 80% usage limit will not have an economic impact on the Company until its current net operating losses are either utilized or expired. In addition, the Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company plans to elect the real property trade or business exception with the 2018 tax return. As such, the Company is required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change reduced the Company's tax depreciation allowed by approximately \$57.9 million for the year ended December 31, 2018 and will have a similar impact on future tax depreciation deductions, as these assets are now being depreciated over a longer period. This decrease has had an impact on the Company's taxable loss or income and in turn impacted the Company's valuation allowance. For the year ended December 31, 2017, reasonable estimates for our state and local provision were made based on our analysis of the Tax Act. On the basis of additional guidance issued by various state tax authorities, these provisional amounts were adjusted in the year ended December 31, 2018. The Company recognized an additional \$6.0 million of valuation allowance against the Company's state net operating losses with corresponding increase of \$6.0 million in the income tax provision. This was primarily due to expiring state net operating losses resulting from certain state taxing authorities not adopting the federal standard of unlimited net operating loss carryovers.

Summary of Operating Results

The table below presents a summary of our operating results and certain other financial metrics for the years ended December 31, 2018 and 2017 and the amount and percentage of increase or decrease of each applicable item.

<i>(in millions)</i>	Years Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	Percent
Total revenues	\$ 4,531.4	\$ 4,747.1	\$ (215.7)	(4.5)%
Facility operating expense	\$ 2,453.3	\$ 2,602.2	\$ (148.9)	(5.7)%
Net income (loss)	\$ (528.4)	\$ (571.6)	\$ (43.2)	(7.6)%
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	\$ (528.3)	\$ (571.4)	\$ (43.1)	(7.6)%
Adjusted EBITDA ⁽¹⁾	\$ 509.6	\$ 638.6	\$ (129.0)	(20.2)%
Net cash provided by operating activities	\$ 204.0	\$ 378.4	\$ (174.4)	(46.1)%
Adjusted Free Cash Flow ⁽¹⁾	\$ 19.8	\$ 109.2	\$ (89.4)	(81.9)%

(1) Adjusted EBITDA and Adjusted Free Cash Flow are non-GAAP financial measures we use to assess our operating performance and liquidity. See "Non-GAAP Financial Measures" below for important information regarding both measures.

During 2018, total revenues were \$4.5 billion, a decrease of \$215.7 million, or 4.5%, as compared to our total revenues for the prior year. Resident fees for 2018 decreased \$330.9 million, or 8.8%, from the prior year. Management fees decreased \$3.9 million, or 5.1%, from the prior year, and reimbursed costs incurred on behalf of managed communities increased \$119.1 million, or 13.4%. The decrease in resident fees during 2018 was primarily due to dispositions of 219 communities through sales and lease terminations since the beginning of the prior year. The decrease in resident fees was partially offset by a 1.2% increase in senior housing average monthly revenue per occupied unit (RevPOR) at the 664 communities we owned or leased during both full years.

During 2018, facility operating expense was \$2.5 billion, a decrease of \$148.9 million, or 5.7%, as compared to the prior year. The decrease in facility operating expense was primarily due to the impact of disposition activity since the beginning of the prior year. Facility operating expense increased \$76.8 million, or 4.6%, at the 664 communities we owned or leased during both full years, primarily due to an increase in labor expense arising from wage rate increases.

Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders for the year ended December 31, 2018 was \$(528.3) million, compared to net income (loss) attributable to Brookdale Senior Living Inc. common stockholders of \$(571.4) million for the prior year. Net income (loss) for the year was \$(528.4) million, a decrease of 7.6% compared to net income (loss) of \$(571.6) million for the prior year. Net income (loss) for 2018 included \$489.9 million of non-cash impairment expense, partially offset by a \$293.2 million net gain on sale of assets. Net income (loss) for 2017 included \$409.8 million of non-cash impairment expense. During the year ended December 31, 2018, our Adjusted EBITDA decreased by 20.2% compared to the year ended December 31, 2017. The decrease in Adjusted EBITDA was primarily due to increases in community labor expense at the communities operated during both full periods and disposition activity since the beginning of the prior year period. Adjusted EBITDA includes transaction and organizational restructuring costs of \$28.1 million for the year ended December 31, 2018 and transaction and strategic project costs of \$25.4 million for the year ended December 31, 2017.

During the year ended December 31, 2018, net cash provided by operating activities was \$204.0 million, a decrease of \$174.4 million, or 46.1%, compared to our net cash provided by operating activities for the year ended December 31, 2017. The decrease in net cash provided by operating activities was attributable primarily to cash payments to terminate community operating leases during the current year, an increase in facility operating expense at the communities operated during both full years, and the impact of disposition activity. During the year ended December 31, 2018, our Adjusted Free Cash Flow was \$19.8 million, a decrease of 81.9% compared to the year ended December 31, 2017.

Consolidated Results of Operations

Comparison of Year Ended December 31, 2018 and 2017

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

As of December 31, 2018 our total operations included 892 communities with a capacity to serve approximately 84,000 residents.

(dollars in thousands, except RevPAR and RevPOR)

	Years Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	Percent ⁽¹⁾
<i>Statement of Operations Data:</i>				
Revenue				
Resident fees				
Independent Living	\$ 599,977	\$ 654,196	\$ (54,219)	(8.3)%
Assisted Living and Memory Care	1,995,851	2,210,688	(214,837)	(9.7)%
CCRCs	416,408	468,994	(52,586)	(11.2)%
Health Care Services	436,975	446,262	(9,287)	(2.1)%
Total resident fees	3,449,211	3,780,140	(330,929)	(8.8)%
Management services ⁽²⁾	1,082,215	966,976	115,239	11.9 %
Total revenue	4,531,426	4,747,116	(215,690)	(4.5)%
Expense				
Facility operating expense				
Independent Living	359,368	382,779	(23,411)	(6.1)%
Assisted Living and Memory Care	1,366,869	1,461,630	(94,761)	(6.5)%
CCRCs	324,196	362,832	(38,636)	(10.6)%
Health Care Services	402,895	394,914	7,981	2.0 %
Total facility operating expense	2,453,328	2,602,155	(148,827)	(5.7)%
General and administrative expense	250,495	255,446	(4,951)	(1.9)%
Transaction costs	8,980	22,573	(13,593)	(60.2)%
Facility lease expense	303,294	339,721	(36,427)	(10.7)%
Depreciation and amortization	447,455	482,077	(34,622)	(7.2)%
Goodwill and asset impairment	489,893	409,782	80,111	19.5 %
Loss on facility lease termination and modification, net	162,001	14,276	147,725	NM
Costs incurred on behalf of managed communities	1,010,229	891,131	119,098	13.4 %
Total operating expense	5,125,675	5,017,161	108,514	2.2 %
Income (loss) from operations	(594,249)	(270,045)	(324,204)	(120.1)%
Interest income	9,846	4,623	5,223	113.0 %
Interest expense	(280,269)	(326,154)	(45,885)	(14.1)%
Debt modification and extinguishment costs	(11,677)	(12,409)	(732)	(5.9)%
Equity in loss of unconsolidated ventures	(8,804)	(14,827)	(6,023)	(40.6)%
Gain on sale of assets, net	293,246	19,273	273,973	NM
Other non-operating income	14,099	11,418	2,681	23.5 %
Income (loss) before income taxes	(577,808)	(588,121)	(10,313)	(1.8)%
Benefit (provision) for income taxes	49,456	16,515	32,941	199.5 %
Net income (loss)	(528,352)	(571,606)	(43,254)	(7.6)%
Net (income) loss attributable to noncontrolling interest	94	187	(93)	(49.7)%
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	\$ (528,258)	\$ (571,419)	\$ (43,161)	(7.6)%

	Years Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	Percent ⁽¹⁾
<i>Selected Operating and Other Data:</i>				
Number of communities operated and managed (period end)	892	1,023	(131)	(12.8)%
Units operated and managed				
Period end	84,279	100,582	(16,303)	(16.2)%
Weighted average	94,562	101,779	(7,217)	(7.1)%
Owned/leased units				
Period end	56,492	66,641	(10,149)	(15.2)%
Weighted average	63,170	71,365	(8,195)	(11.5)%
RevPAR ⁽³⁾	\$ 3,972	\$ 3,890	82	2.1 %
Owned/leased communities occupancy rate (weighted average)	84.3%	85.0%	(0.7)%	(0.8)%
RevPOR ⁽⁴⁾	\$ 4,712	\$ 4,578	\$ 134	2.9 %
<i>Selected Segment Operating and Other Data:</i>				
Independent Living				
Number of communities (period end)	68	84	(16)	(19.0)%
Total units				
Period end	12,419	15,042	(2,623)	(17.4)%
Weighted average	14,164	16,124	(1,960)	(12.2)%
RevPAR ⁽³⁾	3,530	3,381	149	4.4 %
Occupancy rate (weighted average)	88.8%	87.7%	1.1 %	1.3 %
RevPOR ⁽⁴⁾	\$ 3,977	\$ 3,854	\$ 123	3.2 %
Assisted Living and Memory Care				
Number of communities (period end)	593	682	(89)	(13.0)%
Total units				
Period end	37,500	44,773	(7,273)	(16.2)%
Weighted average	42,229	47,523	(5,294)	(11.1)%
RevPAR ⁽³⁾	3,939	3,877	62	1.6 %
Occupancy rate (weighted average)	83.0%	84.3%	(1.3)%	(1.5)%
RevPOR ⁽⁴⁾	\$ 4,747	\$ 4,597	\$ 150	3.3 %
CCRCs				
Number of communities (period end)	26	28	(2)	(7.1)%
Total units				
Period end	6,573	6,826	(253)	(3.7)%
Weighted average	6,777	7,718	(941)	(12.2)%
RevPAR ⁽³⁾	5,100	5,032	68	1.4 %
Occupancy rate (weighted average)	83.2%	83.1%	0.1 %	0.1 %
RevPOR ⁽⁴⁾	\$ 6,132	\$ 6,059	\$ 73	1.2 %
Management Services				
Number of communities (period end)	205	229	(24)	(10.5)%
Total units				
Period end	27,787	33,941	(6,154)	(18.1)%
Weighted average	31,392	30,414	978	3.2 %
Occupancy rate (weighted average)	83.9%	85.0%	(1.1)%	(1.3)%
Health Care Services				

Home Health average daily census	15,238	15,092	146	1.0 %
Hospice average daily census	1,359	1,096	263	24.0 %
Outpatient Therapy treatment codes	683,348	743,095	(59,747)	(8.0)%

- (1) NM - Not meaningful
- (2) Management services segment revenue includes management fees and reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.
- (3) RevPAR, or average monthly senior housing resident fee revenues per available unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of available units in the corresponding portfolio for the period, divided by the number of months in the period.
- (4) RevPOR, or average monthly senior housing resident fee revenues per occupied unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of occupied units in the corresponding portfolio for the period, divided by the number of months in the period.

Resident Fees

Resident fee revenue decreased \$330.9 million, or 8.8%, compared to the prior year primarily due to disposition activity through sales and lease terminations of 219 communities since the beginning of the prior year, which generated \$302.5 million of revenue during 2018 compared to \$653.9 million of revenue in the prior year. The decrease was partially offset by \$32.3 million of revenue for four communities acquired during 2018. The increases to RevPAR and RevPOR for the consolidated portfolio are primarily due to the disposition of communities with lower RevPOR since the beginning of the prior year period. RevPOR at the 664 communities we owned or leased during both full years increased by 1.2%. Weighted average occupancy decreased 90 basis points at the 664 communities we owned or leased during both full years, which reflects the impact of new competition in our markets. RevPOR increased at communities that we owned or leased during both full years primarily as a result of in-place rent increases and lower discounting.

Independent Living segment revenue decreased \$54.2 million, or 8.3%, primarily due to the impact of dispositions of 27 communities since the beginning of the prior year, which generated \$81.3 million of revenue during 2018 compared to \$152.2 million of revenue in the prior year. The decrease was partially offset by \$10.6 million of revenue for one community acquired during 2018. Independent Living segment revenue at the communities we operated during both full years was \$475.6 million during 2018, an increase of \$5.8 million, or 1.2%, over the prior year, primarily due to a 110 basis point increase in weighted average occupancy and a 0.2% increase in RevPOR at these communities.

Assisted Living and Memory Care segment revenue decreased \$214.8 million, or 9.7%, primarily due to the impact of dispositions of 177 communities since the beginning of the prior year, which generated \$205.2 million of revenue during 2018 compared to \$423.3 million of revenue in the prior year. The decrease was partially offset by \$10.3 million of revenue for two communities acquired during 2018. Assisted Living and Memory Care segment revenue at the communities we operated during both full years was \$1,734.8 million during 2018, a decrease of \$3.2 million over the prior year, primarily due to a 160 basis point decrease in weighted average occupancy at these communities, partially offset by a 1.7% increase in RevPOR at these communities.

CCRCs segment revenue decreased \$52.6 million, or 11.2%, primarily due to the impact of dispositions of 15 communities since the beginning of the prior year, which generated \$16.0 million of revenue during 2018 compared to \$78.4 million of revenue in the prior year. The decrease was partially offset by \$11.4 million of revenue for one community acquired during 2018. CCRCs segment revenue at the communities we operated during both full years was \$358.1 million during 2018, consistent with the prior year and reflecting an 0.8% increase in RevPOR at these communities, partially offset by a 60 basis point decrease in weighted average occupancy.

Health Care Services segment revenue decreased \$9.3 million, or 2.1%, primarily due to a decline in home health revenue and the impact of the adoption of ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") on January 1, 2018 under the modified retrospective approach which resulted in a \$6.9 million decrease to resident fee revenue and facility operating expense. See Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about ASU 2014-09. These decreases were partially offset by an increase in volume for hospice services. For home health in 2018, CMS implemented a net 0.4% reimbursement reduction, consisting of a 1.0% market basket inflation increase, less a 0.9% reduction to account for industry wide case-mix growth, and the sunset of the rural add-on provision. As a result, our home health reimbursement was reduced by approximately 0.8% compared to the prior year period. In 2019, we expect our home health reimbursement to be increased by approximately 1.0% in 2019 compared to 2018.

Management Services Revenue

Management Services segment revenue, including management fees and reimbursed costs incurred on behalf of managed communities, increased \$115.2 million, or 11.9%, over the prior year primarily due to our entry into management agreements with the Blackstone Venture and the transition of communities previously leased from HCP and Welltower into the management services segment on an interim basis. Reimbursed costs incurred on behalf of managed communities increased as a result of increases in salaries and wages and other facility operating expense at the communities managed in both full years. Additionally, reimbursed costs incurred on behalf of managed communities increased due to the impact of the adoption of ASU 2014-09 on January 1, 2018 under the modified retrospective approach. The impact to each of revenue for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities as a result of applying ASC 606 was an increase of \$46.1 million for 2018. See Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about ASU 2014-09. Management fees of \$72.0 million for 2018 include \$13.1 million of management fees attributable to communities for which our management agreements were terminated in 2018.

Facility Operating Expense

Facility operating expense decreased \$148.8 million, or 5.7%, over the prior year primarily due to disposition activity through sales and lease terminations of 219 communities since the beginning of the prior year, which incurred \$207.8 million of facility operating expense during 2018 compared to \$453.4 million of facility operating expense in the prior year. The decrease was partially offset by an increase in labor expense at the communities we operated during both full years and by \$17.9 million of facility operating expense for four communities acquired during 2018. Facility operating expense included costs related to our responses to hurricanes of \$1.3 million in 2018 and \$7.3 million in the prior year. Facility operating expense at the 664 communities we operated during both full years increased 4.6%, over the prior year, reflecting the impact of our investment in salaries and benefits and a tight labor market during 2018. We expect that our labor investments will continue into 2019. Additionally, costs for information technology systems and insurance expenses increased at the communities we operated during both full years.

Independent Living segment facility operating expense decreased \$23.4 million, or 6.1%, primarily driven by the impact of dispositions of 27 communities since the beginning of the prior year, which incurred \$48.2 million of facility operating expense during 2018 compared to \$90.1 million of facility operating expense in the prior year. This decrease was partially offset by an increase in labor expense at the communities we operated during both full years and by \$6.1 million of facility operating expense for one community acquired during 2018. Independent Living segment facility operating expense at the communities we operated during both full years was \$282.2 million, an increase of \$12.6 million, or 4.7%, over the prior year.

Assisted Living and Memory Care segment facility operating expense decreased \$94.8 million, or 6.5%, primarily driven by the impact of dispositions of 177 communities since the beginning of the prior year, which incurred \$145.1 million of facility operating expense in 2018 compared to \$294.5 million of facility operating expense in the prior year. This decrease was partially offset by an increase in labor expense at the communities we operated during both full years and by \$5.6 million of facility operating expense for two communities acquired during 2018. Assisted Living and Memory Care segment facility operating expense at the communities we operated during both full years was \$1,176.7 million, an increase of \$53.8 million, or 4.8%, over the prior year.

CCRCs segment facility operating expense decreased \$38.6 million, or 10.6%, primarily driven by the impact of dispositions of 15 communities since the beginning of the prior year, which incurred \$14.5 million of facility operating expense in 2018 compared to \$68.7 million of facility operating expense in the prior year. The decrease was partially offset by \$6.2 million of facility operating expense for one community acquired during 2018. CCRCs segment facility operating expense at the communities we operated during both full years was \$282.7 million, an increase of \$10.4 million, or 3.8%, over the prior year.

Health Care Services segment operating expense increased \$8.0 million, or 2.0%, primarily due to an increase in labor costs arising from wage rate increases and the expansion of our hospice services. The increase was partially offset by the impact of the adoption of ASU 2014-09 on January 1, 2018 under the modified retrospective approach which resulted in a \$6.9 million decrease to resident fee revenue and facility operating expense. See Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about ASU 2014-09.

General and Administrative Expense

General and administrative expense decreased \$5.0 million, or 1.9%, over the prior year primarily due to a decrease in salaries and wages expense as a result of a reduction in our corporate associate headcount pursuant to the initiative to scale our general and administrative costs in connection with our portfolio optimization strategy. General and administrative expense included severance costs and retention costs of \$12.3 million and \$6.5 million, respectively, in 2018.

Transaction Costs

Transaction costs decreased \$13.6 million to \$9.0 million. Transaction costs in 2018 primarily included direct costs related to our assessment of options and alternatives to enhance stockholder value and community leasing activity, including lease terminations and modifications. Transaction costs in the prior year primarily included direct costs related to the formation of the Blackstone Venture, our assessment of options and alternatives to enhance stockholder value and community disposition activity.

Facility Lease Expense

Facility lease expense decreased \$36.4 million, or 10.7%, primarily due to lease termination activity since the beginning of 2017.

Depreciation and Amortization

Depreciation and amortization expense decreased \$34.6 million, or 7.2%, primarily due to disposition activity through sales and lease terminations since the beginning of the prior year.

Goodwill and Asset Impairment

During the year ended December 31, 2018, we recorded \$489.9 million of non-cash impairment charges. The impairment charges included \$351.7 million of goodwill within the Assisted Living and Memory Care segment, \$78.0 million of property, plant and equipment and leasehold intangibles for certain communities, \$33.4 million related to investments in unconsolidated ventures, \$15.6 million related to communities identified as held for sale, and \$9.1 million of intangible assets for health care licenses within the Health Care Services segment.

During the year ended December 31, 2017, we recorded \$409.8 million of non-cash impairment charges. The impairment charges included \$205.0 million of goodwill within the Assisted Living and Memory Care segment, \$164.4 million of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment, \$25.8 million related to investments in unconsolidated ventures, and \$14.6 million of intangible assets for healthcare licenses within the Health Care Services segment.

See "Critical Accounting Policies and Estimates" below and Note 5 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about our evaluations of goodwill and other assets for impairment and the related impairment charges.

Loss on Facility Lease Termination and Modification, Net

Loss on facility lease termination and modification, net increased \$147.7 million to \$162.0 million. In 2018, we recognized a \$125.7 million loss on the restructuring of community leases with Ventas and \$36.3 million of net losses on community lease termination activity. See Note 4 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for more information about our community lease modification and termination activity.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$119.1 million, or 13.4%, primarily due to our entry into management agreements with the Blackstone Venture and the transition of communities previously leased from HCP and Welltower into the management services segment on an interim basis. Additionally, costs incurred on behalf of managed communities increased as a result of increases in salaries and wages and other facility operating expense at the communities managed in both full years and due to the impact of the adoption of ASU 2014-09, Revenue from Contracts with Customers on January 1, 2018 under the modified retrospective approach. The impact to each of revenue for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities as a result of applying ASC 606 was an increase of \$46.1 million for 2018. See Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about ASU 2014-09.

Interest Expense

Interest expense decreased by \$45.9 million, or 14.1%, primarily due to capital and financing lease termination activity since the beginning of the prior year.

Equity in Earnings (Loss) of Unconsolidated Ventures

Equity in loss of unconsolidated ventures decreased by \$6.0 million over the prior year primarily due to the sale of investments in unconsolidated ventures.

Gain on Sale of Assets, Net

Gain on sale of assets, net increased \$274.0 million to \$293.2 million. In 2018, we recognized gains for sales of communities, sales of investments in unconsolidated ventures, and the termination of financing leases. See Note 4 to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for more information about our disposition activity.

Income Taxes

The difference between the statutory tax rate and our effective tax rates for the years ended December 31, 2018 and 2017 is mainly due to the impact of the Tax Act recorded in 2017 as compared to 2018. In addition, there was an increase in 2018 resulting from additional nondeductible write-off of goodwill recorded in the year. We recorded an aggregate deferred federal, state and local tax benefit of \$52.4 million as a result of the operating loss for the year ended December 31, 2018, which included an increase in the valuation allowance of \$0.3 million. We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of December 31, 2018 and December 31, 2017 was \$336.4 million and \$336.1 million, respectively.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the year ended December 31, 2018 and 2017 which are included in provision for income tax for the period. Tax returns for years 2014 through 2017 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Comparison of Year Ended December 31, 2017 and 2016

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

As of December 31, 2017 our total operations included 1,023 communities with a capacity to serve approximately 101,000 residents.

(dollars in thousands, except RevPAR and RevPOR)

	Years Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	Percent ⁽¹⁾
<i>Statement of Operations Data:</i>				
Revenue				
Resident fees				
Independent Living	\$ 654,196	\$ 679,503	\$ (25,307)	(3.7)%
Assisted Living and Memory Care	2,210,688	2,419,459	(208,771)	(8.6)%
CCRCs	468,994	592,826	(123,832)	(20.9)%
Health Care Services	446,262	476,833	(30,571)	(6.4)%
Total resident fees	3,780,140	4,168,621	(388,481)	(9.3)%
Management services ⁽²⁾	966,976	808,359	158,617	19.6 %
Total revenue	4,747,116	4,976,980	(229,864)	(4.6)%
Expense				
Facility operating expense				
Independent Living	382,779	384,973	(2,194)	(0.6)%
Assisted Living and Memory Care	1,461,630	1,542,642	(81,012)	(5.3)%
CCRCs	362,832	459,417	(96,585)	(21.0)%
Health Care Services	394,914	412,370	(17,456)	(4.2)%
Total facility operating expense	2,602,155	2,799,402	(197,247)	(7.0)%
General and administrative expense	255,446	313,409	(57,963)	(18.5)%
Transaction costs	22,573	3,990	18,583	NM
Facility lease expense	339,721	373,635	(33,914)	(9.1)%
Depreciation and amortization	482,077	520,402	(38,325)	(7.4)%
Goodwill and asset impairment	409,782	248,515	161,267	64.9 %
Loss on facility lease termination	14,276	11,113	3,163	28.5 %
Costs incurred on behalf of managed communities	891,131	737,597	153,534	20.8 %
Total operating expense	5,017,161	5,008,063	9,098	0.2 %
Income (loss) from operations	(270,045)	(31,083)	(238,962)	NM
Interest income	4,623	2,933	1,690	57.6 %
Interest expense	(326,154)	(385,617)	(59,463)	(15.4)%
Debt modification and extinguishment costs	(12,409)	(9,170)	3,239	35.3 %
Equity in earnings (loss) of unconsolidated ventures	(14,827)	1,660	(16,487)	NM
Gain on sale of assets, net	19,273	7,218	12,055	167.0 %
Other non-operating income	11,418	14,801	(3,383)	(22.9)%
Income (loss) before income taxes	(588,121)	(399,258)	188,863	47.3 %
Benefit (provision) for income taxes	16,515	(5,378)	21,893	NM
Net income (loss)	(571,606)	(404,636)	166,970	41.3 %
Net (income) loss attributable to noncontrolling interest	187	239	(52)	(21.8)%
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	\$ (571,419)	\$ (404,397)	\$ 167,022	41.3 %

	Years Ended December 31,		Increase (Decrease)	
	2017	2016	Amount	Percent ⁽¹⁾
<i>Selected Operating and Other Data:</i>				
Number of communities operated and managed (period end)	1,023	1,055	(32)	(3.0)%
Units operated and managed				
Period end	100,582	102,768	(2,186)	(2.1)%
Weighted average	101,779	106,122	(4,343)	(4.1)%
Owned/leased units				
Period end	66,641	77,135	(10,494)	(13.6)%
Weighted average	71,365	79,932	(8,567)	(10.7)%
RevPAR ⁽³⁾	\$ 3,890	\$ 3,845	\$ 45	1.2 %
Owned/leased communities occupancy rate (weighted average)	85.0%	86.0%	(1.0)%	(1.2)%
RevPOR ⁽⁴⁾	\$ 4,578	\$ 4,468	\$ 110	2.5 %
<i>Selected Segment Operating and Other Data:</i>				
Independent Living				
Number of communities (period end)	84	93	(9)	(9.7)%
Total units				
Period end	15,042	17,017	(1,975)	(11.6)%
Weighted average	16,124	17,103	(979)	(5.7)%
RevPAR ⁽³⁾	3,381	3,311	70	2.1 %
Occupancy rate (weighted average)	87.7%	89.0%	(1.3)%	(1.5)%
RevPOR ⁽⁴⁾	\$ 3,854	\$ 3,720	\$ 134	3.6 %
Assisted Living and Memory Care				
Number of communities (period end)	682	768	(86)	(11.2)%
Total units				
Period end	44,773	50,682	(5,909)	(11.7)%
Weighted average	47,523	52,777	(5,254)	(10.0)%
RevPAR ⁽³⁾	3,877	3,820	57	1.5 %
Occupancy rate (weighted average)	84.3%	85.5%	(1.2)%	(1.4)%
RevPOR ⁽⁴⁾	\$ 4,597	\$ 4,468	\$ 129	2.9 %
CCRCs				
Number of communities (period end)	28	41	(13)	(31.7)%
Total units				
Period end	6,826	9,436	(2,610)	(27.7)%
Weighted average	7,718	10,052	(2,334)	(23.2)%
RevPAR ⁽³⁾	5,032	4,880	152	3.1 %
Occupancy rate (weighted average)	83.1%	83.8%	(0.7)%	(0.8)%
RevPOR ⁽⁴⁾	\$ 6,059	\$ 5,824	\$ 235	4.0 %
Management Services				
Number of communities (period end)	229	153	76	49.7 %
Total units				
Period end	33,941	25,633	8,308	32.4 %
Weighted average	30,414	26,190	4,224	16.1 %
Occupancy rate (weighted average)	85.0%	87.0%	(2.0)%	(2.3)%
Health Care Services				

Home Health average daily census	15,092	15,067	25	0.2 %
Hospice average daily census	1,096	767	329	42.9 %
Outpatient Therapy treatment codes	744,924	1,713,733	(968,809)	(56.5)%

- (1) NM - Not meaningful
- (2) Management services segment revenue includes management fees and reimbursements for which we are the primary obligor of costs incurred on behalf of managed communities.
- (3) RevPAR, or average monthly senior housing resident fee revenues per available unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of available units in the corresponding portfolio for the period, divided by the number of months in the period.
- (4) RevPOR, or average monthly senior housing resident fee revenues per occupied unit, is defined by the Company as resident fee revenues, excluding Health Care Services segment revenue and entrance fee amortization, for the corresponding portfolio for the period, divided by the weighted average number of occupied units in the corresponding portfolio for the period, divided by the number of months in the period.

Resident Fees

Resident fee revenue decreased \$388.5 million, or 9.3%, compared to the prior year primarily due to disposition activity through sales and lease terminations of 165 communities since the beginning of the prior year. Weighted average occupancy decreased 130 basis points at the 766 communities we owned or leased during both full years, which reflects the impact of new competition in our markets. Additionally, Health Care Services segment revenue decreased \$30.6 million, or 6.4%, primarily due to a decrease in volume for outpatient therapy services and a decrease in reimbursement rates for home health services. The 165 communities disposed of subsequent to the beginning of the prior year (including the 62 communities for which the financial results were deconsolidated from our financial statements prospectively upon formation of the Blackstone Venture on March 29, 2017) generated \$172.6 million of revenue during 2017 compared to \$543.3 million of revenue in the prior year. The decrease in resident fee revenue was partially offset by a 2.5% increase in RevPOR.

Independent Living segment revenue decreased \$25.3 million, or 3.7%, primarily due to the impact of dispositions of 12 communities since the beginning of the prior year, which generated \$26.5 million of revenue during 2017 compared to \$63.8 million of revenue in the prior year. Independent Living segment revenue at the communities we operated during both full years was \$571.7 million during 2017, an increase of \$2.2 million, or 0.4%, over the prior year, primarily due to a 1.8% increase in RevPOR at these communities, partially offset by a 120 basis point decrease in weighted average occupancy at these communities.

Assisted Living and Memory Care segment revenue decreased \$208.8 million, or 8.6%, primarily due to the impact of dispositions of 138 communities since the beginning of the prior year, which generated \$97.9 million of revenue during 2017 compared to \$310.3 million of revenue in the prior year. Assisted Living and Memory Care segment revenue at the communities we operated during both full years was \$2,043.8 million during 2017, a decrease of \$0.9 million over the prior year, primarily due to a 140 basis point decrease in weighted average occupancy at these communities, partially offset by a 1.8% increase in RevPOR at these communities.

CCRCs segment revenue decreased \$123.8 million, or 20.9%, primarily due to the impact of dispositions of 15 communities since the beginning of the prior year, which generated \$48.1 million of revenue during 2017 compared to \$169.3 million of revenue in the prior year. CCRCs segment revenue at the communities we operated during both full years was \$368.2 million during 2017, an increase of \$4.9 million, or 1.4%, over the prior year, primarily due to a 1.7% increase in RevPOR at these communities, partially offset by a 30 basis point decrease in weighted average occupancy at these communities.

Health Care Services segment revenue decreased \$30.6 million, or 6.4%, primarily due to a decrease in volume for outpatient therapy services and a decrease in reimbursement rates for home health services. During the three months ended December 31, 2016, we significantly reduced the number of outpatient therapy clinics located in our communities as lower reimbursement rates and lower utilization made the business less attractive. These decreases were partially offset by an increase in volume for hospice services. Despite an increase over the prior year period, our home health average daily census was negatively impacted by interruptions to service by Hurricane Irma in Florida. For home health in 2017, CMS implemented a net 0.7% reimbursement reduction, consisting of a 2.8% market basket inflation increase, less a 0.3% productivity reduction, a 2.3% rebasing adjustment, and a 0.9% reduction to account for industry wide case-mix growth. As a result, our home health reimbursement was reduced by approximately 3.2% compared to the prior year period.

Management Services Revenue

Management Services segment revenue, including management fees and reimbursed costs incurred on behalf of managed communities, increased \$158.6 million, or 19.6%, over the prior year primarily due to our entry into management agreements with the Blackstone Venture. Management fees of \$75.8 million for 2017 include \$5.6 million of management fees attributable to communities for which our management agreements were terminated in 2017.

Facility Operating Expense

Facility operating expense decreased \$197.2 million, or 7.0%, over the prior year. Facility operating expense in 2017 includes \$7.3 million of costs related to our response to Hurricanes Harvey and Irma. The decrease in facility operating expense was primarily due to disposition activity through sales and lease terminations of 165 communities since the beginning of the prior year, which incurred \$135.0 million of facility operating expense during 2017 compared to \$413.1 million of facility operating expense in the prior year. Additionally, Health Care Services segment facility operating expense decreased \$17.5 million, or 4.2%, primarily due to a decrease in volume for outpatient therapy services. These decreases were partially offset by an increase in salaries and wages arising from wage rate increases at the communities we operated during both full years and a \$23.3 million increase in insurance expense related to positive changes in the prior year to estimates in general liability and professional liability and workers compensation expense.

Independent Living segment facility operating expense decreased \$2.2 million, or 0.6%, primarily driven by the impact of dispositions of 12 communities since the beginning of the prior year, which incurred \$17.9 million of facility operating expense during 2017 compared to \$40.1 million of facility operating expense in the prior year. This decrease was partially offset by an increase in salaries and wages arising from wage rate increases. Independent Living segment facility operating expense, excluding costs related to hurricanes, at the communities we operated during both full years were \$327.8 million, an increase of \$11.0 million, or 3.5%, over the prior year.

Assisted Living and Memory Care segment facility operating expense decreased \$81.0 million, or 5.3%, primarily driven by the impact of dispositions of 138 communities since the beginning of the prior year, which incurred \$76.3 million of facility operating expense in 2017 compared to \$231.4 million of facility operating expense in the prior year. This decrease was partially offset by an increase in salaries and wages arising from wage rate increases at the communities we operated during both full years and a \$21.0 million increase in insurance expense related to positive changes in the prior year to estimates in general liability and professional liability and workers compensation expense. Assisted Living and Memory Care segment facility operating expense, excluding costs related to hurricanes, at the communities we operated during both full years were \$1,330.2 million, an increase of \$54.9 million, or 4.3%, over the prior year.

CCRCs segment facility operating expense decreased \$96.6 million, or 21.0%, primarily driven by the impact of dispositions of 15 communities since the beginning of the prior year, which incurred \$40.9 million of facility operating expense in 2017 compared to \$141.7 million of facility operating expense in the prior year. CCRCs segment facility operating expense, excluding costs related to hurricanes, at the communities we operated during both full years were \$280.2 million, an increase of \$3.2 million, or 1.2%, over the prior year.

Health Care Services segment operating expense decreased \$17.5 million, or 4.2%, primarily due to a decrease in volume for outpatient therapy services. During the three months ended December 31, 2016, we significantly reduced the number of outpatient therapy clinics located in our communities as lower reimbursement rates and lower utilization made the business less attractive.

General and Administrative Expense

General and administrative expense decreased \$58.0 million, or 18.5%, over the prior year primarily due to a \$47.4 million decrease in integration and strategic project costs. Strategic project costs were \$2.8 million during 2017 compared to integration and strategic project costs of \$50.2 million in the prior year. Integration costs for 2016 include transition costs associated with organizational restructuring (such as severance and retention payments and recruiting expenses), third party consulting expenses directly related to the integration of acquired communities (in areas such as cost savings and synergy realization, branding and technology and systems work), and internal costs such as training, travel and labor, reflecting time spent by Company personnel on integration activities and projects. Strategic project costs for 2016 include costs associated with strategic projects related to refining our strategy, building out enterprise-wide capabilities (including EMR roll-out projects) and reducing costs and achieving synergies by capitalizing on scale. Additionally, a reduction in corporate associate headcount resulted in decreased salaries and wage expenses in 2017.

Transaction Costs

Transaction costs increased \$18.6 million. Transaction costs in 2017 were primarily direct costs related to the formation of the Blackstone Venture and our assessment of options and alternatives to enhance stockholder value. Transaction costs in the prior year were primarily direct costs related to community disposition activity.

Facility Lease Expense

Facility lease expense decreased \$33.9 million, or 9.1%, primarily due to lease termination activity since the beginning of the prior year.

Depreciation and Amortization

Depreciation and amortization expense decreased \$38.3 million, or 7.4%, primarily due to disposition activity, through sales and lease terminations, since the beginning of the prior year.

Goodwill and Asset Impairment

During the year ended December 31, 2017, we recorded \$409.8 million of non-cash impairment charges. The impairment charges included \$205.0 million of goodwill within the Assisted Living and Memory Care segment, \$164.4 million of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment, \$25.8 million related to investments in unconsolidated ventures, and \$14.6 million of intangible assets for health care licenses within the Health Care Services segment.

During the year ended December 31, 2016, we recorded impairment charges of \$248.5 million. We recorded property, plant and equipment and leasehold intangibles impairment charges of \$166.2 million for the year ended December 31, 2016, primarily due to lower than expected operating performance at certain properties and to reflect the amount by which the carrying values of assets exceeded their estimated fair value. We recorded \$15.8 million of impairment charges related to communities identified as assets held for sale, primarily due to excess of carrying value, including allocated goodwill, over the estimated selling price less costs to dispose. We recorded \$36.8 million of impairment charges related to investments in unconsolidated ventures, primarily due to lower than expected operating performance at the communities owned by the unconsolidated ventures and these charges reflect the amount by which the carrying values of the investments exceeded their estimated fair value. Additionally, we recorded \$28.2 million and \$1.5 million of impairment charges related to community purchase options and healthcare licenses, respectively. These impairment charges were primarily due to lower than expected operating performance at the communities subject to the community purchase options and reflect the amount by which the carrying values of the community purchase options exceeded their estimated fair value.

See "Critical Accounting Policies and Estimates" below and Note 5 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about our evaluations of goodwill and other assets for impairment and the related impairment charges.

Loss on Facility Lease Termination

Loss on facility lease termination increased \$3.2 million, or 28.5%, primarily due to increased lease termination activity.

Costs Incurred on Behalf of Managed Communities

Costs incurred on behalf of managed communities increased \$153.5 million, or 20.8%, primarily due to our entry into management agreements with the Blackstone Venture.

Interest Expense

Interest expense decreased by \$59.5 million, or 15.4%, primarily due to lease termination activity since the beginning of the prior year.

Equity in Earnings (Loss) of Unconsolidated Ventures

Equity in earnings (loss) of unconsolidated ventures decreased by \$16.5 million over the prior year. Equity in loss of unconsolidated ventures of \$14.8 million in 2017 includes losses for the Blackstone Venture, which was formed subsequent to the prior year, and

the impact of additional interest expense incurred as a result of non-recourse mortgage financing obtained by the CCRC Venture subsequent to the prior year.

Gain on Sale of Assets, Net

Gain on sale of assets, net increased \$12.1 million, or 167.0%, primarily due to an \$11.4 million gain on sale of assets recognized during 2017 for the termination of financing lease obligations for 21 communities which were previously subject to sale-leaseback transactions in which the Company was deemed to have continuing involvement for accounting purposes.

Other Non-operating Income

Other non-operating income decreased by \$3.4 million, or 22.9%, primarily due to decreased insurance recoveries for property losses.

Income Taxes

On December 22, 2017, the President signed into law the Tax Act, a bill reforming the US corporate income tax code which, among other reforms, reduced our federal corporate tax rate from 35% to 21%. The rate reduction took effect on January 1, 2018. The carrying value of our deferred tax assets and liabilities is determined by the enacted federal corporate income tax rate. Consequently, changes in the federal corporate income tax rate impacted the carrying value of our net deferred tax liability position subsequent to the enactment date. Under the new federal corporate income tax rate of 21%, net deferred income tax assets decreased by \$108.1 million and our valuation allowance decreased by \$172.2 million. In addition to the impact of the federal corporate income tax rate, the change in corporate tax law reduced our valuation allowance by an additional \$50.6 million. The net effect of the tax reform enactment on our consolidated financial statements was a benefit of \$114.7 million which was reflected in our consolidated statement of operations for the year ended December 31, 2017. Reasonable estimates for our state and local provision were made based on our analysis of tax reform. These provisional amounts were adjusted during the year ended December 31, 2018. Please see Note 16 to the consolidated financial statements for a discussion of the adjustment.

For the year ended December 31, 2017 we recorded an aggregate deferred federal, state and local tax benefit of \$15.3 million, which consists of a \$148.9 million benefit as a result of the operating loss for the year, which was partially offset by a \$110.4 million expense related to revaluation of our net deferred tax assets and liabilities under the Tax Act. Further offsetting the aggregate deferred benefit was an increase in the valuation allowance of \$246.0 million before consideration of the Tax Act. The impact of the Tax Act resulted in a reduction of our valuation allowance of \$222.8 million, with a \$172.2 million reduction due to rate and \$50.6 million reduction primarily as a result of the changes anticipated to the use of net operating losses generated after December 31, 2017. We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of December 31, 2017 and 2016 was \$336.1 million and \$264.3 million, respectively, as described in Note 16 to the consolidated financial statements.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the years ended December 31, 2017 and 2016 which are included in provision for income tax for the period. Tax returns for years 2013 through 2016 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Liquidity and Capital Resources

The following is a summary of cash flows from operating, investing and financing activities, as reflected in the consolidated statements of cash flows:

<i>(in thousands)</i>	Year Ended December 31,		Increase (Decrease)	
	2018	2017	Amount	Percent
Net cash provided by operating activities	\$ 203,961	\$ 378,359	\$ (174,398)	(46.1)%
Net cash provided by (used in) investing activities	288,774	(602,333)	891,107	147.9 %
Net cash (used in) provided by financing activities	(325,063)	229,198	(554,261)	(241.8)%
Net increase in cash, cash equivalents and restricted cash	167,672	5,224	162,448	NM
Cash, cash equivalents and restricted cash at beginning of year	282,546	277,322	5,224	1.9 %
Cash, cash equivalents and restricted cash at end of year	\$ 450,218	\$ 282,546	\$ 167,672	59.3 %

The decrease in net cash provided by operating activities of \$174.4 million was attributable primarily to cash payments to terminate community operating leases during the current year, an increase in facility operating expense at the communities operated during both full years, and the impact of disposition activity through sales and lease terminations since the beginning of the prior year.

The change in net cash provided by (used in) investing activities of \$891.1 million was primarily attributable to a \$429.3 million increase in net proceeds from the sale of assets, net sales of \$278.5 million of marketable securities during the current year, net purchases of \$291.2 million of marketable securities during the prior year, and our contribution of \$179.2 million in connection with the formation of the Blackstone Venture during the prior year. These changes were partially offset by \$271.8 million of cash paid for the acquisition of six communities.

The change in net cash (used in) provided by financing activities was primarily attributable to our cash settlement of the aggregate principal amount of the \$316.3 million of 2.75% convertible senior notes during June 2018, the repayment of mortgage debt for community dispositions, and a decrease in proceeds from debt compared to the prior year.

Our principal sources of liquidity have historically been from:

- cash balances on hand, cash equivalents and marketable securities;
- cash flows from operations;
- proceeds from our credit facilities;
- funds generated through unconsolidated venture arrangements;
- proceeds from mortgage financing, refinancing of various assets or sale-leaseback transactions;
- funds raised in the debt or equity markets; and
- proceeds from the disposition of assets.

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

Our liquidity requirements have historically arisen from:

- working capital;
- operating costs such as employee compensation and related benefits, severance costs, general and administrative expense and supply costs;
- debt service and lease payments;
- acquisition consideration, lease termination and restructuring costs, and transaction and integration costs;
- capital expenditures and improvements, including the expansion, renovation, redevelopment and repositioning of our current communities and the development of new communities;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorizations;
- other corporate initiatives (including integration, information systems, branding and other strategic projects); and
- prior to 2009, dividend payments.

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

- working capital;
- operating costs such as employee compensation and related benefits, severance costs, general and administrative expense and supply costs;
- debt service and lease payments;
- transaction costs and expansion of our healthcare services;
- capital expenditures and improvements, including the expansion, renovation, redevelopment and repositioning of our existing communities;
- cash funding needs of our unconsolidated ventures for operating, capital expenditure and financing needs;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorization; and
- other corporate initiatives (including information systems and other strategic projects).

We are highly leveraged and have significant debt and lease obligations. As of December 31, 2018, we had two principal corporate-level debt obligations: our secured credit facility providing commitments of \$250.0 million and our separate unsecured letter of credit facility providing for up to \$66.2 million of letters of credit. As of December 31, 2018, 94.9%, or \$3.5 billion, of our total debt obligations represent non-recourse property-level mortgage financings.

As of December 31, 2018, we had \$3.6 billion of debt outstanding, excluding capital and financing lease obligations, at a weighted-average interest rate of 4.8%. No balance was drawn on our secured credit facility as of December 31, 2018. As of December 31, 2018, we had \$0.9 billion of capital and financing lease obligations and \$106.8 million of letters of credit had been issued under our secured credit facility and separate unsecured letter of credit facility. For the year ending December 31, 2019, we will be required to make approximately \$88.3 million and \$310.3 million of cash payments in connection with our existing capital and financing leases and our operating leases, respectively.

Total liquidity of \$592.5 million as of December 31, 2018 included \$398.3 million of unrestricted cash and cash equivalents (excluding restricted cash and lease security deposits of \$100.2 million in the aggregate), \$14.9 million of marketable securities, and \$179.4 million of availability on our secured credit facility.

As of December 31, 2018, we had \$0.7 million of positive working capital. Due to the nature of our business, it is not unusual to operate in the position of negative working capital because we collect revenues much more quickly, often in advance, than we are required to pay obligations, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations generally result in a very low level of current assets primarily stemming from our deployment of cash to pay down long-term liabilities, to fund capital expenditures, and to pursue transaction opportunities. As of December 31, 2018, the current portion of long-term debt was \$294.4 million, including \$31.2 million of mortgage debt related to 13 communities classified as held for sale as of December 31, 2018.

Our capital expenditures are comprised of community-level, corporate and development capital expenditures. Community-level capital expenditures include recurring expenditures (routine maintenance of communities over \$1,500 per occurrence, including for unit turnovers (subject to a \$500 floor)) and community renovations, apartment upgrades and other major building infrastructure projects. Corporate and other capital expenditures include those for information technology systems and equipment, the expansion of our support platform and healthcare services programs, and the remediation or replacement of assets as a result of casualty losses. Development capital expenditures include community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities.

Through our Program Max initiative, we intend to expand, renovate, redevelop and reposition certain of our communities where economically advantageous. Certain of our communities may benefit from additions and expansions or from adding a new level of service for residents to meet the evolving needs of our customers. These Program Max projects include converting space from one level of care to another, reconfiguration of existing units, the addition of services that are not currently present or physical plant modifications. We currently have six Program Max projects that have been approved, most of which have begun construction and are expected to generate 69 net new units.

Following Hurricane Irma in 2017, legislation was adopted in the State of Florida in March 2018 that requires skilled nursing homes and assisted living and memory care communities in Florida to obtain generators and fuel necessary to sustain operations and maintain comfortable temperatures in the event of a power outage. Our impacted Florida communities must comply with the requirements by January 1, 2019, subject to extension in certain circumstances. We made approximately \$12.1 million of capital expenditures in 2018, and we expect to make approximately \$4.5 million of capital expenditures in 2019, to comply with this legislation. In addition, our 2018 non-development capital expenditures included approximately \$5.4 million of capital expenditures at our communities for remediation costs related to Hurricanes Irma and Harvey.

The following table summarizes our actual 2018 capital expenditures for our consolidated business:

<i>(in millions)</i>	Actual 2018	
Community-level capital expenditures, net ⁽¹⁾	\$	128.8
Corporate ⁽²⁾		53.4
Non-development capital expenditures, net ⁽³⁾		182.2
Development capital expenditures, net ⁽⁴⁾		24.7
Total capital expenditures, net	\$	206.9

(1) Reflects the amount invested, net of lessor reimbursements of \$12.2 million.

(2) Includes \$17.5 million of remediation costs at our communities resulting from Hurricanes Harvey and Irma and for the acquisition of emergency power generators at our impacted Florida communities. Amounts exclude reimbursement from our property and casualty insurance policies of approximately \$1.3 million.

- (3) Amount is included in Adjusted Free Cash Flow.
- (4) Reflects the amount invested, net of lessor reimbursements of \$1.7 million.

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We also expect our full-year 2019 development capital expenditures, net of anticipated lessors reimbursements, to be approximately \$30 million. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. With this additional investment in our communities, we expect our Adjusted Free Cash Flow to be negative for 2019. In addition, we expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

Execution on our strategy, including completing our capital expenditure plans and pursuing expansion of our healthcare services, may require additional capital. We expect to continue to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities. Any such sale of additional equity securities will dilute the percentage ownership of our existing stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to forego, delay or abandon our plans.

We currently estimate that our existing cash flows from operations, together with cash on hand, amounts available under our secured credit facility and proceeds from anticipated dispositions of owned communities and financings and refinancings of various assets, will be sufficient to fund our liquidity needs for at least the next 12 months, assuming a relatively stable macroeconomic environment.

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

Company Indebtedness, Long-Term Leases and Hedging Agreements

Indebtedness

As of December 31, 2018, we had two principal corporate-level debt obligations: our secured credit facility providing commitments of \$250.0 million and our separate unsecured letter of credit facility providing for up to \$66.2 million of letters of credit. As of December 31, 2018, 94.9%, or \$3.5 billion, of our total debt obligations represent non-recourse property-level mortgage financings.

Credit Facilities

On December 5, 2018, we entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety our Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. We have a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides us a one-time right to reduce the amount of the revolving credit commitments, and we may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The Amended Agreement extended the maturity date of the Original

Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of our communities. In addition, the Amended Agreement permits us to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and our consolidated fixed charge coverage ratio.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of December 31, 2018, no borrowings were outstanding on the revolving credit facility, \$40.7 million of letters of credit were outstanding, and the revolving credit facility had \$179.4 million of availability. We also had a separate unsecured letter of credit facility providing for up to \$66.2 million of letters of credit as of December 31, 2018. Letters of credit totaling \$66.1 million had been issued under the separate facility as of that date.

Long-Term Leases

As of December 31, 2018, we operated 343 communities under long-term leases (252 operating leases and 91 capital and financing leases). The substantial majority of our lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. We typically guarantee the performance and lease payment obligations of our subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of our leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in leased property revenue or the consumer price index. We are responsible for all operating costs, including repairs, property taxes and insurance. The initial lease terms primarily vary from 10 to 20 years and generally include renewal options ranging from 5 to 20 years. The remaining initial lease terms vary from less than 1 year to 14 years and generally provide for renewal or extension options and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios as further described below. In addition, our lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements. Certain leases contain cure provisions, which generally allow us to post an additional lease security deposit if the required covenant is not met.

In addition, certain of our master leases and management agreements contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such agreements. These radius restrictions could negatively affect our ability to expand or develop or acquire senior housing communities and operating companies.

For the year ended December 31, 2018, our cash lease payments for our capital and financing leases and our operating leases were \$132.5 million and \$324.9 million, respectively. For the year ending December 31, 2019, we will be required to make approximately \$88.3 million and \$310.3 million of cash lease payments in connection with our existing capital and financing leases and our operating leases, respectively. Our capital expenditure plans for 2019 include required minimum spend of approximately \$12

million for capital expenditures under certain of our community leases, and thereafter we are required to spend an average of approximately \$20 million per year under the initial lease terms of such leases.

Debt and Lease Covenants

Certain of our debt and lease documents contain restrictions and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and debt service and lease coverage ratios, and requiring us not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. Net worth is generally calculated as stockholders' equity as calculated in accordance with GAAP, and in certain circumstances, reduced by intangible assets or liabilities or increased by deferred gains from sale-leaseback transactions and deferred entrance fee revenue. The debt service and lease coverage ratios are generally calculated as revenues less operating expenses, including an implied management fee and a reserve for capital expenditures, divided by the debt (principal and interest) or lease payment. In addition, our debt and lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements.

Our failure to comply with applicable covenants could constitute an event of default under the applicable debt or lease documents. Many of our debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors).

Furthermore, our debt and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, if an event of default has occurred under any of our debt or lease documents, subject to cure provisions in certain instances, the respective lender or lessor would have the right to declare all the related outstanding amounts of indebtedness or cash lease obligations immediately due and payable, to foreclose on our mortgaged communities, to terminate our leasehold interests, to foreclose on other collateral securing the indebtedness and leases, to discontinue our operation of leased communities and/or to pursue other remedies available to such lender or lessor. Further, an event of default could trigger cross-default provisions in our other debt and lease documents (including documents with other lenders or lessors). We cannot provide assurance that we would be able to pay the debt or lease obligations if they became due upon acceleration following an event of default.

As of December 31, 2018, we are in compliance with the financial covenants of our debt agreements and long-term leases.

Derivative Instruments

In the normal course of business, we enter into interest rate agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of December 31, 2018, \$1.1 billion of our long-term debt, excluding capital and financing lease obligations, is variable rate debt subject to interest rate cap agreements. The remaining \$276.2 million of our long-term variable rate debt is not subject to any interest rate cap agreements.

Contractual Commitments

The following table presents a summary of our material indebtedness, including the related interest payments, lease and other contractual commitments, as of December 31, 2018.

<i>(in millions)</i>	Total	Payments Due during the Year Ending December 31,					
		2019	2020	2021	2022	2023	Thereafter
Contractual Obligations:							
Long-term debt and line of credit obligations ⁽¹⁾	\$ 4,669.3	\$ 474.9	\$ 546.7	\$ 473.7	\$ 442.0	\$ 376.6	\$ 2,355.4
Capital and financing lease obligations ⁽²⁾	1,503.8	88.3	98.5	90.2	91.6	93.1	1,042.1
Operating lease obligations ⁽²⁾	2,272.0	310.3	307.5	290.7	291.1	285.7	786.7
Total contractual obligations	\$ 8,445.1	\$ 873.5	\$ 952.7	\$ 854.6	\$ 824.7	\$ 755.4	\$ 4,184.2
Total commercial construction commitments	\$ 13.7	\$ 13.7	\$ —	\$ —	\$ —	\$ —	\$ —

- (1) Includes contractual interest for all fixed-rate obligations and assumes interest on variable rate instruments at the December 31, 2018 rate.
- (2) Reflects future cash payments after giving effect to non-contingent lease escalators and assumes payments on variable rate instruments at the December 31, 2018 rate. Additionally, the contractual obligation amounts include the residual value for financing lease obligations.

The foregoing amounts exclude outstanding letters of credit aggregating to \$106.8 million as of December 31, 2018.

Impacts of Inflation

Resident fees and management fees are our primary sources of revenue. These revenues are affected by the amount of the monthly resident fee rates we charge and community occupancy rates. The rates charged at communities are highly dependent on local market conditions and the competitive environment in which the communities operate. Substantially all of our senior housing residency agreements allow for adjustments in the monthly fee payable every 12 or 13 months which enables us to seek increases in monthly fees due to inflation, increased levels of care or other factors. Any pricing increases would be subject to market and competitive conditions and could result in a decrease in occupancy in the communities. We believe, however, that our ability to periodically adjust the monthly fee serves to reduce the adverse effect of inflation. In addition, salaries, wages and benefits costs are a principal element of facility operating expense and are also dependent upon local market conditions and general inflationary pressures. There can be no assurance that monthly resident fee rates can be increased, or that costs will not increase, above inflation rates whether due to inflation or other causes.

Increases in prevailing interest rates as a result of inflation or other factors will increase our payment obligations on our variable-rate obligations to the extent they are un-hedged and may increase our future borrowing and hedging costs. Although we have interest rate cap agreements in place for a majority of our variable-rate debt, these agreements only limit our exposure to increases in interest rates above certain levels and generally must be renewed every two to three years. As of December 31, 2018, \$276.2 million of our outstanding variable-rate indebtedness is not subject to interest rate cap agreements.

Off-Balance Sheet Arrangements

As of December 31, 2018, we do not have an interest in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

We own interests in certain unconsolidated ventures as described under Note 6 to the consolidated financial statements. Except in limited circumstances, our risk of loss is limited to our investment in each venture. We also own interests in certain other unconsolidated ventures that are not considered variable interest entities. The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures.

Critical Accounting Policies and Estimates

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

Self-Insurance Liability Accruals

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Although we maintain general liability and professional liability insurance policies for our owned, leased and managed communities under a master insurance program, our current policies provide for deductibles for each and every claim. As a result, we are effectively self-insured for claims that are less than the deductible amounts. In addition, we maintain a high-deductible workers compensation program. Third-party insurers are responsible for claim costs above program deductibles and retentions.

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

provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator.

Outstanding losses and expenses for general liability and professional liability and workers compensation are estimated based on the recommendations of independent actuaries and management's estimates. We review the adequacy of our accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third-party administrator estimates, consultants, advice from legal counsel and industry data, and adjust accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored and estimates are updated as information becomes available.

Income Taxes

We account for income taxes under the provisions of Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. As of December 31, 2018 and 2017, we have a valuation allowance against deferred tax assets of approximately \$336.4 million and \$336.1 million, respectively. When we determine that it is more likely than not that we will be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would be made and reflected in income. This determination will be made by considering various factors, including the reversal and timing of existing temporary differences, tax planning strategies and estimates of future taxable income exclusive of the reversal of temporary differences, although we are currently precluded under GAAP from considering estimates of future taxable income in our analysis due to our cumulative historical operating losses.

Lease Accounting

We determine whether to account for our leases as either operating, capital, or financing leases depending on the underlying terms. As of December 31, 2018, we operated 343 communities under long-term leases with operating, capital and financing lease obligations. The determination of this classification requires judgment. Our classification criteria is based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements. Communities under operating leases are accounted for in our consolidated statements of operations as lease expenses for actual rent paid plus or minus straight-line adjustments for minimum lease escalators as well as amortization of above/below market rents and deferred gains. For communities under capital and financing lease obligation arrangements, a liability is established on our balance sheets and a corresponding long-term asset is recorded. Lease payments are allocated between principal and interest on the remaining base lease obligations. For capital lease assets, the asset is depreciated over the remaining lease term unless there is a bargain purchase option in which case the asset is depreciated over the useful life. For financing lease assets, the asset is depreciated over the useful life of the asset. In addition, we amortize leasehold improvements purchased during the term of the lease over the shorter of their economic life or the lease term. Sale-leaseback transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options.

Goodwill Impairment

As of December 31, 2018 and 2017, we had goodwill balances of \$154.1 million and \$505.8 million, respectively. Goodwill recorded in connection with business combinations is allocated to the respective reporting unit and included in our application of the provisions of ASC 350, *Intangibles – Goodwill and Other* ("ASC 350").

We test goodwill for impairment annually during our fourth quarter, or whenever indicators of impairment arise. Factors we consider important in our analysis of whether an indicator of impairment exists include a significant decline in our stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. We first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. We are not required to calculate the fair value of a reporting unit unless we determine, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The fair values used in the quantitative goodwill impairment test are estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense growth rates, capitalization rates and discount rates. We also consider market based measures such as earnings multiples in our analysis of estimated fair values of our reporting units. If the quantitative goodwill impairment test results in a reporting unit's carrying amount exceeding its estimated

fair value, an impairment charge will be recorded based on the difference, with the impairment charge limited to the amount of goodwill allocated to the reporting unit.

In estimating the fair value of our reporting units for purposes of our quantitative goodwill impairment testing, we utilize the income approach, which includes future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at our cash flow projections, we consider our historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. In using the income approach to estimate the fair value of reporting units for purposes of our goodwill impairment testing, we make certain key assumptions. Those assumptions include future revenues, facility operating expenses, and cash flows, including sales proceeds that we would receive upon a sale of the communities using estimated capitalization rates. We corroborate the estimated capitalization rates we use in these calculations with capitalization rates observable from recent market transactions. Future cash flows are discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. We also consider market based measures such as earnings multiples in our analysis of estimated fair values of our reporting units.

During the three months ended September 30, 2017, we identified qualitative indicators of impairment of our goodwill, including a significant decline in our stock price and market capitalization for a sustained period since the last testing date, significant underperformance relative to historical and projected operating results, and an increased competitive environment in the senior living industry. Based upon our qualitative assessment, we performed an interim quantitative goodwill impairment test as of September 30, 2017, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. Based on the results of the quantitative goodwill impairment test, we determined that the carrying amount of our Assisted Living and Memory Care reporting unit exceeded its estimated fair value by \$205.0 million as of September 30, 2017. As a result, we recorded a non-cash impairment charge of \$205.0 million to goodwill within the Assisted Living and Memory Care operating segment for the three months ended September 30, 2017. As of September 30, 2017, we concluded that there was no impairment of goodwill for the Independent Living and Health Care Services reporting units.

During 2018, we identified qualitative indicators of impairment of our goodwill, including a significant decline in our stock price and market capitalization for a sustained period during the three months ended March 31, 2018. As a result, we performed an interim quantitative goodwill impairment test as of March 31, 2018, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. In estimating the fair value of the reporting units for purposes of the quantitative goodwill impairment test, we utilized an income approach, which included future cash flow projections that are developed internally. Based on the results of the quantitative goodwill impairment test, we determined that the carrying value of our Assisted Living and Memory Care segment exceeded its estimated fair value by more than the \$351.7 million carrying value as of March 31, 2018. As a result, we recorded a non-cash impairment charge of \$351.7 million to goodwill within the Assisted Living and Memory Care segment for the three months ended March 31, 2018.

As of October 1, 2018 and December 31, 2018, we concluded that there was no impairment of goodwill for the Independent Living and Health Care Services reporting units. Based on the results of the annual quantitative goodwill impairment test, we determined that the estimated fair value of our Health Care Services reporting unit exceeded its carrying value by approximately 17%. Goodwill allocated to our Health Care Services reporting units is \$126.8 million as of December 31, 2018.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions, which we believe to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk-adjusted discount rates. Future events may indicate differences from management's current judgments and estimates which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact capitalization and discount rates, differences in the projected occupancy rates and changes in the cost structure of existing communities. Significant adverse changes in our future revenues and/or operating margins, significant changes in the market for senior housing or the valuation of the real estate of senior living communities, as well as other events and circumstances, including but not limited to increased competition and changing economic or market conditions, including market control premiums, could result in changes in fair value and the determination that additional goodwill is impaired.

Our impairment loss assessment contains uncertainties because it requires us to apply judgment to estimate whether there has been a decline in the fair value of our reporting units, including estimating future cash flows, and if necessary, the fair value of our assets and liabilities. As we periodically perform this assessment, changes in our estimates and assumptions may cause us to realize material impairment charges in the future. Although we make every reasonable effort to ensure the accuracy of our estimate of

the fair value of our reporting units, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss.

Property, Plant and Equipment and Leasehold Intangibles Impairment

As of December 31, 2018 and 2017, our long-lived assets were comprised primarily of \$5.3 billion and \$5.9 billion of net property, plant and equipment and leasehold intangibles, respectively. In accounting for our property, plant and equipment and leasehold intangibles, we apply the provisions of ASC 360, *Property, Plant and Equipment*. Acquisitions are accounted for using the purchase method of accounting and the purchase prices are assigned to acquired assets and liabilities based on their estimated fair values.

We test property, plant and equipment and leasehold intangibles for recoverability annually during our fourth quarter or whenever changes in circumstances indicate the carrying value may not be recoverable. Recoverability of an asset is estimated by comparing its carrying value to the future net undiscounted cash flows expected to be generated by the asset, calculated utilizing the lowest level of identifiable cash flows. If this comparison indicates that the carrying value of an asset is not recoverable, we are required to recognize an impairment loss. The impairment loss is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. When an impairment loss is recognized for assets to be held and used, the carrying amount of those assets is permanently adjusted and depreciated over its remaining useful life.

In estimating the recoverability of property, plant and equipment and leasehold intangibles for purposes of our impairment testing, we utilize future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at our cash flow projections, we consider our historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. In estimating the future cash flows of asset groups for purposes of our property, plant and equipment and leasehold intangibles impairment test, we make certain key assumptions. Those assumptions include future revenues, facility operating expenses, and cash flows, including sales proceeds that we would receive upon a sale of the communities using estimated capitalization rates. We corroborate the estimated capitalization rates we use in these calculations with capitalization rates observable from recent market transactions.

Determining the future cash flows of an asset group involves the use of significant estimates and assumptions, which we believe to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows. Future events may indicate differences from management's current judgments and estimates which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact capitalization rates, differences in the projected occupancy rates and changes in the cost structure of existing communities. Significant adverse changes in our future revenues and/or operating margins, significant changes in the market for senior housing or the valuation of the real estate of senior living communities, as well as other events and circumstances, including but not limited to increased competition and changing economic or market conditions, could result in changes in estimated future cash flows and the determination that additional assets are impaired.

During 2018, 2017 and 2016 we evaluated long-lived depreciable assets and determined in each year that the undiscounted cash flows exceeded the carrying value of these assets for all except a small number of communities. Estimated fair values were determined for these certain properties and we recorded asset impairment charges of \$78.0 million, \$164.4 million and \$166.2 million for 2018, 2017 and 2016, respectively, for property, plant and equipment and leasehold intangibles. These impairment charges are primarily due to our decision to dispose of assets, either through sales or lease terminations, or lower than expected performance of the underlying communities and equal the amount by which the carrying values of the assets exceed the estimated fair value.

Our impairment loss assessment contains uncertainties because it requires us to apply judgment to estimate whether there has been a decline in the fair value of our assets, including estimating future cash flows, and if necessary, the fair value of our assets. As we periodically perform this assessment, changes in our estimates and assumptions may cause us to realize material impairment charges in the future. Although we make every reasonable effort to ensure the accuracy of our estimate of the future cash flows of assets, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss.

New Accounting Pronouncements

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

Non-GAAP Financial Measures

This Annual Report on Form 10-K contains financial measures utilized by management to evaluate our operating performance and liquidity that are not calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). Each of these measures, Adjusted EBITDA and Adjusted Free Cash Flow, should not be considered in isolation from or as superior to or as a substitute for net income (loss), income (loss) from operations, net cash provided by (used in) operating activities, or other financial measures determined in accordance with GAAP. We use these non-GAAP financial measures to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

We strongly urge you to review the reconciliations of Adjusted EBITDA from our net income (loss), our Adjusted Free Cash Flow from our net cash provided by (used in) operating activities, and our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures from such ventures' net cash provided by (used in) operating activities, along with our consolidated financial statements included herein. We also strongly urge you not to rely on any single financial measure to evaluate our business. We caution investors that amounts presented in accordance with our definitions of Adjusted EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures disclosed by other companies, because not all companies calculate these non-GAAP measures in the same manner.

Adjusted EBITDA

Definition of Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before: provision (benefit) for income taxes; non-operating (income) expense items; depreciation and amortization (including non-cash impairment charges); (gain) loss on sale or acquisition of communities (including gain (loss) on facility lease termination and modification); straight-line lease expense (income), net of amortization of (above) below market rents; amortization of deferred gain; non-cash stock-based compensation expense; and change in future service obligation.

Management's Use of Adjusted EBITDA

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

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

Limitations of Adjusted EBITDA

Adjusted EBITDA has limitations as an analytical tool. Material limitations in making the adjustments to our net income (loss) to calculate Adjusted EBITDA, and using this non-GAAP financial measure as compared to GAAP net income (loss), include:

- the cash portion of interest expense, income tax (benefit) provision and non-recurring charges related to gain (loss) on sale of communities (or facility lease termination and modification) and extinguishment of debt activities generally represent charges (gains), which may significantly affect our operating results; and
- depreciation and amortization and asset impairment represent the wear and tear and/or reduction in value of our communities and other assets, which affects the services we provide to residents and may be indicative of future needs for capital expenditures.

We believe Adjusted EBITDA is useful to investors in evaluating our operating performance because it is helpful in identifying trends in our day-to-day performance since the items excluded have little or no significance to our day-to-day operations and it provides an assessment of our revenue and expense management.

The table below reconciles Adjusted EBITDA from net income (loss).

<i>(in thousands)</i>	Years Ended December 31,		
	2018	2017	2016
Net income (loss)	\$ (528,352)	\$ (571,606)	\$ (404,636)
(Benefit) provision for income taxes	(49,456)	(16,515)	5,378
Equity in loss (earnings) of unconsolidated ventures	8,804	14,827	(1,660)
Debt modification and extinguishment costs	11,677	12,409	9,170
(Gain) loss on sale of assets	(293,246)	(19,273)	(7,218)
Other non-operating income	(14,099)	(11,418)	(14,801)
Interest expense	280,269	326,154	385,617
Interest income	(9,846)	(4,623)	(2,933)
Income (loss) from operations	(594,249)	(270,045)	(31,083)
Depreciation and amortization	447,455	482,077	520,402
Goodwill and asset impairment	489,893	409,782	248,515
Loss on facility lease termination and modification, net	162,001	14,276	11,113
Straight-line lease (income) expense	(17,218)	(20,990)	(6,097)
Amortization of deferred gain	(4,358)	(4,366)	(4,372)
Non-cash stock-based compensation expense	26,067	27,832	32,285
Adjusted EBITDA ⁽¹⁾	\$ 509,591	\$ 638,566	\$ 770,763

(1) The calculation of Adjusted EBITDA includes transaction and organizational restructuring costs of \$28.1 million for the year ended December 31, 2018, transaction and strategic project costs of \$25.4 million for the year ended December 31, 2017 and integration, transaction and strategic project costs of \$54.2 million for the year ended December 31, 2016. Transaction costs include third party costs directly related to acquisition and disposition activity, community financing and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance and retention costs. Strategic project costs include costs associated with certain strategic projects related to refining our strategy, building out enterprise-wide capabilities (including the EMR roll-out project) and reducing costs and achieving synergies by capitalizing on scale. Integration costs include transition costs associated with organizational restructuring (such as severance and retention payments and recruiting expenses), third party consulting expenses directly related to the integration of acquired communities (in areas such as cost savings and synergy realization, branding and technology and systems work), and internal costs such as training, travel and labor, reflecting time spent by Company personnel on integration activities and projects.

Adjusted Free Cash Flow

Definition of Adjusted Free Cash Flow

We define Adjusted Free Cash Flow as net cash provided by (used in) operating activities before: changes in operating assets and liabilities; gain (loss) on facility lease termination and modification; and distributions from unconsolidated ventures from cumulative share of net earnings; plus: proceeds from refundable entrance fees, net of refunds; and property insurance proceeds; less: lease financing debt amortization and Non-Development CapEx. Non-Development CapEx is comprised of corporate and community-level capital expenditures, including those related to maintenance, renovations, upgrades and other major building infrastructure projects for our communities. Non-Development CapEx does not include capital expenditures for community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities. Amounts of Non-Development CapEx are presented net of lessor reimbursements in the calculation of Adjusted Free Cash Flow.

Our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is calculated based on our equity ownership percentage and in a manner consistent with the definition of Adjusted Free Cash Flow for our consolidated entities. Our investments in our unconsolidated ventures are accounted for under the equity method of accounting and, therefore, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures does not represent cash available to our consolidated business except to the extent it is distributed to us.

We adopted ASU 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15") on January 1, 2018 and have applied ASU 2016-15 retrospectively for all periods presented. Among other things, ASU 2016-15 provides that debt prepayment and extinguishment costs will be classified within financing activities in the statement of cash flows. We have identified \$11.7 million and \$7.9 million of cash paid for debt modification and extinguishment costs for the years ended December 31, 2017 and 2016, respectively, which we have retrospectively classified as cash flows from financing activities, resulting in a corresponding increase to the amount of net cash provided by operating activities for such periods. We did not change our definition of Adjusted Free Cash Flow upon our adoption of ASU 2016-15. Following our adoption of ASU 2016-15, the amount of Adjusted Free Cash Flow increased \$11.7 million and \$7.9 million for the years ended December 31, 2017 and 2016, respectively. See Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" for more information about ASU 2016-15.

Management's Use of Adjusted Free Cash Flow

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

Adjusted Free Cash Flow measures our liquidity based on operational factors that management can impact in the short-term, namely the cost structure or expenses of the organization. Adjusted Free Cash Flow is one of the metrics used by our senior management and board of directors (i) to review our ability to service our outstanding indebtedness, including our credit facilities, (ii) to review our ability to pay dividends to stockholders or engage in share repurchases, (iii) to review our ability to make capital expenditures, including development capital expenditures, (iv) for other corporate planning purposes and/or (v) in making compensation determinations for certain of our associates (including our named executive officers).

Limitations of Adjusted Free Cash Flow

Adjusted Free Cash Flow has limitations as an analytical tool. Material limitations in making the adjustments to our net cash provided by (used in) operating activities to calculate Adjusted Free Cash Flow and using this non-GAAP financial measure as compared to GAAP net cash provided by (used in) operating activities, include:

- Adjusted Free Cash Flow does not represent cash available for dividends or discretionary expenditures, since we have mandatory debt service requirements and other non-discretionary expenditures not reflected in this measure; and
- the cash portion of non-recurring charges related to gain (loss) on lease termination and extinguishment of debt activities generally represent charges (gains), which may significantly affect our financial results.

In addition, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures has limitations as an analytical tool because such measure does not represent cash available directly for use by our consolidated business except to the extent actually distributed to us, and we do not have control, or we share control in determining, the timing and amount of distributions from our unconsolidated ventures and, therefore, we may never receive such cash.

We believe Adjusted Free Cash Flow 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 or engage in share repurchases, (3) our ability to make capital expenditures, including developmental capital expenditures, and (4) the underlying value of our assets, including our interests in real estate.

We believe presentation of our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is useful to investors since such measure reflects the cash generated by the operating activities of the unconsolidated ventures for the reporting period and, to the extent such cash is not distributed to us, it generally represents cash used or to be used by the ventures for the repayment of debt, investing in expansions or acquisitions, reserve requirements, or other corporate uses by such ventures, and such uses reduce our potential need to make capital contributions to the ventures of our proportionate share of cash needed for such items.

The table below reconciles our Adjusted Free Cash Flow from our net cash provided by operating activities.

<i>(in thousands)</i>	Years Ended December 31,		
	2018	2017	2016
Net cash provided by operating activities	\$ 203,961	\$ 378,359	\$ 373,651
Net cash provided by (used in) investing activities	288,774	(602,333)	171,798
Net cash (used in) provided by financing activities	(325,063)	229,198	(422,108)
Net increase in cash, cash equivalents and restricted cash	<u>\$ 167,672</u>	<u>\$ 5,224</u>	<u>\$ 123,341</u>
Net cash provided by operating activities	\$ 203,961	\$ 378,359	\$ 373,651
Changes in operating assets and liabilities	38,833	(15,851)	76,252
Proceeds from refundable entrance fees, net of refunds	(422)	(2,179)	(901)
Lease financing debt amortization	(59,808)	(64,906)	(63,267)
Loss on facility lease termination and modification, net	21,044	—	11,113
Distributions from unconsolidated ventures from cumulative share of net earnings	(2,896)	(8,258)	(23,544)
Non-development capital expenditures, net	(182,249)	(186,467)	(220,767)
Property insurance proceeds	1,292	8,550	9,137
Adjusted Free Cash Flow ⁽¹⁾	<u>\$ 19,755</u>	<u>\$ 109,248</u>	<u>\$ 161,674</u>

- (1) The calculation of Adjusted Free Cash Flow includes transaction and organizational restructuring costs of \$28.1 million for the year ended December 31, 2018, transaction and strategic project costs of \$25.4 million for the year ended December 31, 2017 and integration, transaction and strategic project costs of \$54.2 million for the year ended December 31, 2016.

The table below reconciles our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures from net cash provided by operating activities of such unconsolidated ventures. For purposes of this presentation, amounts for each line item represent the aggregate amounts of such line items for all of our unconsolidated ventures.

<i>(in thousands)</i>	Years Ended December 31,		
	2018	2017	2016
Net cash provided by operating activities	\$ 145,087	\$ 269,755	\$ 198,524
Net cash used in investing activities	(60,489)	(1,213,549)	(100,712)
Net cash (used in) provided by financing activities	(77,986)	1,022,544	(88,262)
Net increase in cash, cash equivalents and restricted cash	<u>\$ 6,612</u>	<u>\$ 78,750</u>	<u>\$ 9,550</u>
Net cash provided by operating activities	\$ 145,087	\$ 269,755	\$ 198,524
Changes in operating assets and liabilities	(1,361)	(13,184)	(2,508)
Proceeds from refundable entrance fees, net of refunds	(19,983)	(17,366)	(7,675)
Non-development capital expenditures, net	(69,180)	(100,621)	(98,305)
Property insurance proceeds	1,535	2,425	—
Adjusted Free Cash Flow of unconsolidated ventures	<u>\$ 56,098</u>	<u>\$ 141,009</u>	<u>\$ 90,036</u>
Brookdale weighted average ownership percentage	39.3%	25.1%	36.2%
Brookdale's proportionate share of Adjusted Free Cash Flow of unconsolidated ventures	<u>\$ 22,022</u>	<u>\$ 35,416</u>	<u>\$ 32,630</u>

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

We are subject to market risks from changes in interest rates charged on our credit facilities and other variable-rate indebtedness. The impact on earnings and the value of our long-term debt and lease payments are subject to change as a result of movements in market rates and prices. As of December 31, 2018, we had approximately \$2.3 billion of long-term fixed rate debt and \$1.4

billion of long-term variable rate debt. As of December 31, 2018, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.8%.

In the normal course of business, we enter into certain interest rate cap agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of December 31, 2018, \$2.3 billion, or 62.0%, of our long-term debt, excluding our capital and financing lease obligations, has fixed rates. As of December 31, 2018, \$1.1 billion, or 30.4%, of our long-term debt, excluding capital and financing lease obligations, is variable rate debt subject to interest rate cap agreements. The remaining \$276.2 million, or 7.6%, of our long-term debt is variable rate debt not subject to any interest rate cap agreements. Our outstanding variable rate debt is indexed to LIBOR, and accordingly our annual interest expense related to variable rate debt is directly affected by movements in LIBOR. After consideration of hedging instruments currently in place, increases in LIBOR of 100, 200 and 500 basis points would have resulted in additional annual interest expense of \$14.1 million, \$26.7 million and \$37.2 million, respectively. Certain of the Company's variable debt instruments include springing provisions that obligate the Company to acquire additional interest rate caps in the event that LIBOR increases above certain levels, and the implementation of those provisions would result in additional mitigation of interest costs.

Item 8. Financial Statements and Supplementary Data.**BROOKDALE SENIOR LIVING INC.****INDEX TO FINANCIAL STATEMENTS**

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Brookdale Senior Living Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule included in the Index at Item 15 (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 14, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1993
Chicago, Illinois
February 14, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Brookdale Senior Living Inc.'s (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule included in the Index at Item 15 and our report dated February 14, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

Definition and Limitation of Internal Control over Financial Reporting

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

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

/s/ Ernst & Young LLP

Chicago, Illinois
February 14, 2019

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

	December 31,	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 398,267	\$ 222,647
Marketable securities	14,855	291,796
Restricted cash	27,683	37,189
Accounts receivable, net	133,905	128,961
Assets held for sale	93,117	106,435
Prepaid expenses and other current assets, net	106,189	114,844
Total current assets	<u>774,016</u>	<u>901,872</u>
Property, plant and equipment and leasehold intangibles, net	5,275,427	5,852,145
Restricted cash	24,268	22,710
Investment in unconsolidated ventures	27,528	129,794
Goodwill	154,131	505,783
Other intangible assets, net	51,472	67,977
Other assets, net	160,418	195,168
Total assets	<u>\$ 6,467,260</u>	<u>\$ 7,675,449</u>
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 294,426	\$ 495,413
Current portion of capital and financing lease obligations	23,135	107,088
Trade accounts payable	95,049	91,825
Accrued expenses	298,227	329,966
Refundable entrance fees and deferred revenue	60,414	68,358
Tenant security deposits	2,080	3,126
Total current liabilities	<u>773,331</u>	<u>1,095,776</u>
Long-term debt, less current portion	3,345,754	3,375,324
Capital and financing lease obligations, less current portion	851,341	1,164,466
Deferred liabilities	262,761	224,304
Deferred tax liability	18,371	70,644
Other liabilities	197,289	214,644
Total liabilities	<u>5,448,847</u>	<u>6,145,158</u>
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at December 31, 2018 and December 31, 2017; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized at December 31, 2018 and December 31, 2017; 196,815,254 and 194,454,329 shares issued and 192,356,051 and 191,275,928 shares outstanding (including 5,756,435 and 4,770,097 unvested restricted shares), respectively	1,968	1,913
Additional paid-in-capital	4,151,147	4,126,549
Treasury stock, at cost; 4,459,203 and 3,178,401 shares at December 31, 2018 and December 31, 2017, respectively	(64,940)	(56,440)
Accumulated deficit	<u>(3,069,272)</u>	<u>(2,541,294)</u>
Total Brookdale Senior Living Inc. stockholders' equity	<u>1,018,903</u>	<u>1,530,728</u>

Noncontrolling interest	(490)	(437)
Total equity	<u>1,018,413</u>	<u>1,530,291</u>
Total liabilities and equity	<u>\$ 6,467,260</u>	<u>\$ 7,675,449</u>

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2018	2017	2016
Revenue			
Resident fees	\$ 3,449,211	\$ 3,780,140	\$ 4,168,621
Management fees	71,986	75,845	70,762
Reimbursed costs incurred on behalf of managed communities	1,010,229	891,131	737,597
Total revenue	<u>4,531,426</u>	<u>4,747,116</u>	<u>4,976,980</u>
Expense			
Facility operating expense (excluding depreciation and amortization of \$407,427, \$430,288 and \$469,388, respectively)	2,453,328	2,602,155	2,799,402
General and administrative expense (including non-cash stock-based compensation expense of \$26,067, \$27,832 and \$32,285, respectively)	250,495	255,446	313,409
Transaction costs	8,980	22,573	3,990
Facility lease expense	303,294	339,721	373,635
Depreciation and amortization	447,455	482,077	520,402
Goodwill and asset impairment	489,893	409,782	248,515
Loss on facility lease termination and modification, net	162,001	14,276	11,113
Costs incurred on behalf of managed communities	1,010,229	891,131	737,597
Total operating expense	<u>5,125,675</u>	<u>5,017,161</u>	<u>5,008,063</u>
Income (loss) from operations	(594,249)	(270,045)	(31,083)
Interest income	9,846	4,623	2,933
Interest expense:			
Debt	(188,505)	(172,635)	(174,027)
Capital and financing lease obligations	(83,604)	(140,664)	(202,012)
Amortization of deferred financing costs and debt discount	(7,757)	(12,681)	(9,400)
Change in fair value of derivatives	(403)	(174)	(178)
Debt modification and extinguishment costs	(11,677)	(12,409)	(9,170)
Equity in (loss) earnings of unconsolidated ventures	(8,804)	(14,827)	1,660
Gain on sale of assets, net	293,246	19,273	7,218
Other non-operating income	14,099	11,418	14,801
Income (loss) before income taxes	<u>(577,808)</u>	<u>(588,121)</u>	<u>(399,258)</u>
Benefit (provision) for income taxes	49,456	16,515	(5,378)
Net income (loss)	<u>(528,352)</u>	<u>(571,606)</u>	<u>(404,636)</u>
Net (income) loss attributable to noncontrolling interest	94	187	239
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	<u>\$ (528,258)</u>	<u>\$ (571,419)</u>	<u>\$ (404,397)</u>
Basic and diluted net income (loss) per share attributable to Brookdale Senior Living Inc. common stockholders	<u>\$ (2.82)</u>	<u>\$ (3.07)</u>	<u>\$ (2.18)</u>
Weighted average shares used in computing basic and diluted net loss per	187,468	186,155	185,653

share

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See accompanying notes to consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2018, 2017 and 2016
(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-In- Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Stockholders' Equity</u>	<u>Noncontrolling Interest</u>	<u>Total Equity</u>
	<u>Outstanding Shares</u>	<u>Amount</u>						
Balances at January 1, 2016	188,339	\$ 1,883	\$4,069,283	\$ (46,800)	\$ (1,565,478)	\$ 2,458,888	\$ (161)	\$2,458,727
Compensation expense related to restricted stock grants	—	—	32,285	—	—	32,285	—	32,285
Net income (loss)	—	—	—	—	(404,397)	(404,397)	(239)	(404,636)
Issuance of common stock under Associate Stock Purchase Plan	172	2	2,347	—	—	2,349	—	2,349
Restricted stock, net	2,396	24	(24)	—	—	—	—	—
Purchase of treasury stock	(750)	(8)	8	(9,640)	—	(9,640)	—	(9,640)
Shares withheld for employee taxes	(111)	(1)	(1,639)	—	—	(1,640)	—	(1,640)
Other	—	—	137	—	—	137	150	287
Balances at December 31, 2016	190,046	1,900	4,102,397	(56,440)	(1,969,875)	2,077,982	(250)	2,077,732
Compensation expense related to restricted stock grants	—	—	27,832	—	—	27,832	—	27,832
Net income (loss)	—	—	—	—	(571,419)	(571,419)	(187)	(571,606)
Issuance of common stock under Associate Stock Purchase Plan	181	2	2,039	—	—	2,041	—	2,041
Restricted stock, net	1,421	14	(14)	—	—	—	—	—
Shares withheld for employee taxes	(372)	(3)	(5,886)	—	—	(5,889)	—	(5,889)
Other	—	—	181	—	—	181	—	181
Balances at December 31, 2017	191,276	1,913	4,126,549	(56,440)	(2,541,294)	1,530,728	(437)	1,530,291
Compensation expense related to restricted stock grants	—	—	26,067	—	—	26,067	—	26,067
Net income (loss)	—	—	—	—	(528,258)	(528,258)	(94)	(528,352)
Issuance of common stock under Associate Stock Purchase Plan	207	1	1,468	—	—	1,469	—	1,469
Restricted stock, net	2,593	26	(26)	—	—	—	—	—
Purchase of treasury stock	(1,281)	—	—	(8,500)	—	(8,500)	—	(8,500)
Shares withheld for employee taxes	(439)	(4)	(3,057)	—	—	(3,061)	—	(3,061)
Other, net	—	32	146	—	280	458	41	499
Balances at December 31, 2018	192,356	\$ 1,968	\$4,151,147	\$ (64,940)	\$ (3,069,272)	\$ 1,018,903	\$ (490)	\$1,018,413

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities			
Net income (loss)	\$ (528,352)	\$ (571,606)	\$ (404,636)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Debt modification and extinguishment costs	11,677	12,409	9,170
Depreciation and amortization, net	455,212	494,758	529,802
Goodwill and asset impairment	489,893	409,782	248,515
Equity in loss (earnings) of unconsolidated ventures	8,804	14,827	(1,660)
Distributions from unconsolidated ventures from cumulative share of net earnings	2,896	8,258	23,544
Amortization of deferred gain	(4,358)	(4,366)	(4,372)
Amortization of entrance fees	(1,670)	(2,901)	(4,195)
Proceeds from deferred entrance fee revenue	3,218	5,712	13,980
Deferred income tax (benefit) provision	(52,367)	(15,309)	3,248
Straight-line lease (income) expense	(17,218)	(20,990)	(6,097)
Change in fair value of derivatives	403	174	178
Gain on sale of assets, net	(293,246)	(19,273)	(7,218)
Loss on facility lease termination and modification, net	140,957	14,276	—
Non-cash stock-based compensation expense	26,067	27,832	32,285
Non-cash interest expense on financing lease obligations	10,894	17,744	26,496
Non-cash management contract termination gain	(8,724)	—	—
Other	(1,292)	(8,819)	(9,137)
Changes in operating assets and liabilities:			
Accounts receivable, net	(4,964)	12,747	1,581
Prepaid expenses and other assets, net	26,762	21,970	2,954
Trade accounts payable and accrued expenses	(60,503)	(4,527)	(83,248)
Tenant refundable fees and security deposits	(1,046)	(422)	(839)
Deferred revenue	918	(13,917)	3,300
Net cash provided by operating activities	<u>203,961</u>	<u>378,359</u>	<u>373,651</u>
Cash Flows from Investing Activities			
Change in lease security deposits and lease acquisition deposits, net	1,163	(2,113)	(2,225)
Purchase of marketable securities	(14,823)	(341,187)	—
Sale of marketable securities	293,273	50,000	—
Additions to property, plant and equipment and leasehold intangibles, net	(225,473)	(213,887)	(333,647)
Acquisition of assets, net of related payables and cash received	(271,771)	(5,196)	(12,157)
Investment in unconsolidated ventures	(9,124)	(199,017)	(13,377)
Distributions received from unconsolidated ventures	12,850	29,035	218,973
Proceeds from sale of assets, net	499,807	70,507	297,932
Property insurance proceeds	1,292	8,550	9,137
Other	1,580	975	7,162
Net cash provided by (used in) investing activities	<u>288,774</u>	<u>(602,333)</u>	<u>171,798</u>
Cash Flows from Financing Activities			
Proceeds from debt	606,921	1,307,205	387,348

Repayment of debt and capital and financing lease obligations	(896,744)	(1,054,161)	(469,309)
Proceeds from line of credit	200,000	100,000	1,276,500
Repayment of line of credit	(200,000)	(100,000)	(1,586,500)
Purchase of treasury stock	(4,256)	—	(9,640)
Payment of financing costs, net of related payables	(16,317)	(17,269)	(10,857)
Proceeds from refundable entrance fees, net of refunds	(422)	(2,179)	(901)
Payments for lease termination	(12,548)	(552)	(9,250)
Payments of employee taxes for withheld shares	(3,061)	(5,889)	(1,640)
Other	1,364	2,043	2,141
Net cash (used in) provided by financing activities	<u>(325,063)</u>	<u>229,198</u>	<u>(422,108)</u>
Net increase in cash, cash equivalents and restricted cash	167,672	5,224	123,341
Cash, cash equivalents and restricted cash at beginning of year	282,546	277,322	153,981
Cash, cash equivalents and restricted cash at end of year	<u>\$ 450,218</u>	<u>\$ 282,546</u>	<u>\$ 277,322</u>

See accompanying notes to consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Brookdale Senior Living Inc. ("Brookdale" or the "Company") is an operator of senior living communities throughout the United States. The Company is committed to providing senior living solutions primarily within properties that are designed, purpose-built and operated to provide quality service, care and living accommodations for residents. The Company operates and manages independent living, assisted living, memory care and continuing care retirement communities ("CCRCs"). The Company also offers a range of home health, hospice, and outpatient therapy services to residents of many of its communities and to seniors living outside of its communities.

The Company has five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. In prior periods, the Company referred to the Independent Living segment as the Retirement Centers segment, the Assisted Living and Memory Care segment as the Assisted Living segment, and the Health Care Services segment as the Brookdale Ancillary Services segment. The name changes had no effect on the underlying methodology related to, or results of operations of, the segments.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). Except for the changes for the impact of the recently adopted accounting pronouncements discussed in this Note, the Company has consistently applied its accounting policies to all periods presented in these consolidated financial statements. The significant accounting policies are summarized below:

Principles of Consolidation

The consolidated financial statements include the accounts of Brookdale and its consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operations, are accounted for by the equity method. The ownership interest of consolidated entities not wholly-owned by the Company are presented as noncontrolling interests in the accompanying consolidated financial statements. Noncontrolling interest represents the share of consolidated entities owned by third parties. Noncontrolling interest is adjusted for the noncontrolling holder's share of additional contributions, distributions and the proportionate share of the net income or loss of each respective entity.

The Company continually evaluates its potential variable interest entity ("VIE") relationships under certain criteria as provided for in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation* ("ASC 810"). ASC 810 broadly defines a VIE as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. The Company performs this analysis on an ongoing basis and consolidates any VIEs for which the Company is determined to be the primary beneficiary, as determined by the Company's power to direct the VIE's activities and the obligation to absorb its losses or the right to receive its benefits, which are potentially significant to the VIE. Refer to Note 6 for more information about the Company's VIE relationships.

Use of Estimates

The preparation of the consolidated financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, revenue, goodwill and asset impairments, self-insurance reserves, performance-based compensation, the allowance for doubtful accounts, depreciation and amortization, leasing transactions, income taxes and other contingencies. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from the original estimates.

Revenue Recognition

Resident Fees

Resident fee revenue is reported at the amount that reflects the consideration the Company expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident fee revenue is recognized as performance obligations are satisfied.

Under the Company's senior living residency agreements, which are generally for a contractual term of 30 days to one year, the Company provides senior living services to residents for a stated daily or monthly fee. The Company recognizes revenue for housing services under independent living, assisted living and memory care residency agreements in accordance with the provisions of ASC 840, *Leases* ("ASC 840"). The Company recognizes revenue for skilled nursing residency, assistance with activities of daily living, memory care services, inpatient therapy, healthcare, and personalized health services in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The Company has determined that the senior living services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time.

The Company enters into contracts to provide home health, hospice, and outpatient therapy services. The Company recognizes revenue for home health, hospice, and outpatient therapy services in accordance with the provisions of ASC 606. Each service provided under the contract is capable of being distinct, and thus, the services are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services are provided.

The Company receives revenue for services under various third-party payor programs which include Medicare, Medicaid, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract with the payor, correspondence with the payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

Certain of the Company's communities have residency agreements which require the resident to pay an upfront entrance fee prior to moving into the community, which is partially refundable in certain circumstances. 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 upon the resale of the unit, or in some agreements, upon the resale of a comparable unit or 12 months after the resident vacates the unit. The refundable portion of the fee is not amortized and is included in refundable entrance fees. All refundable amounts due to residents at any time in the future are classified as current liabilities.

Management Services

The Company manages certain communities under contracts which provide periodic management fee payments to the Company. Management fees are generally determined by an agreed upon percentage of gross revenues (as defined in the management agreement). Certain management contracts also provide for an annual incentive fee to be paid to the Company upon achievement of certain metrics identified in the contract. The Company recognizes revenue for community management services in accordance with the provisions of ASC 606. Although there are various management and operational activities performed by the Company under the contracts, the Company has determined that all community operations management activities are a single performance obligation, which is satisfied over time as the services are rendered. The Company estimates the amount of incentive fee revenue expected to be earned, if any, during the annual contract period and revenue is recognized as services are provided. The Company's estimate of the transaction price for management services also includes the amount of reimbursement due from the owners of the communities for services provided and related costs incurred. Such revenue is included in "reimbursed costs incurred on behalf of managed communities" on the consolidated statements of operations. The related costs are included in "costs incurred on behalf of managed communities" on the consolidated statements of operations.

Gain on Sale of Assets

The Company regularly enters into real estate transactions which may include the disposal of certain communities, including the associated real estate. The Company recognizes income from real estate sales under ASC 610-20, *Other Income - Gains and Losses from Derecognition of Nonfinancial Assets* ("ASC 610-20"). Under ASC 610-20, income is recognized when the transfer of control

occurs and the Company applies the five-step model for recognition to determine the amount and timing of income to recognize for all real estate sales.

The Company accounts for the sale of equity method investments under ASC 860, *Transfers and Servicing* ("ASC 860"). Under ASC 860, income is recognized when the transfer of control occurs and the Company has no continuing involvement with the transferred financial assets.

Purchase Accounting

For the acquisition of assets that do not meet the definition of a business, the Company accounts for the transaction as an asset acquisition at the purchase price, including acquisition costs, allocated among the acquired assets and assumed liabilities, including identified intangible assets and liabilities, based upon the relative fair values using level 3 inputs at the date of acquisition. See "Recently Adopted Accounting Pronouncements" in this footnote.

For acquisitions of a business, the Company accounts for the transaction as a business combination pursuant to the acquisition method in accordance with ASC 805, *Business Combinations*, and assets acquired and liabilities assumed, including identified intangible assets and liabilities, are recorded at fair value. 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 fair value using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and/or independent appraisals. The determination of fair value involves the use of significant judgment and estimation and commonly involves Level 3 fair value estimates.

Property, plant and equipment are valued utilizing either a discounted cash flow projection of future revenue and costs, and capitalization and discount rates, using current market conditions or a direct capitalization method. The Company allocates the fair values of buildings acquired on an as-if-vacant basis and depreciates the building values over the estimated remaining lives of the buildings, not to exceed 40 years. The Company determines the allocated values of other fixed assets, such as site improvements and furniture, fixtures and equipment, based upon the replacement cost and depreciates such values over the assets' estimated remaining useful lives as determined at the applicable acquisition date. The Company determines the value of land either by considering the sales prices of similar properties in recent transactions or based on internal analysis of recently acquired and existing comparable properties within its portfolio.

The fair value of acquired lease-related intangibles associated with the relationship with the Company's residents, if any, reflects the estimated value of in-place leases as represented by the cost to obtain residents and an estimated absorption period to reflect the value of the rent and recovery costs foregone during a reasonable lease-up period as if the acquired property were vacant. The Company amortizes any acquired in-place lease intangibles to depreciation and amortization expense over the average remaining length of stay of the residents, which is evaluated on an acquisition by acquisition basis but is generally estimated at 12 months.

The Company may assume rights and obligations under certain lease agreements pursuant to which the Company becomes the lessee of a given property. The Company assumes the lease classification previously determined by the prior lessee absent a modification in the assumed lease agreement. The Company assesses assumed operating leases, including ground leases, to determine whether the lease terms are favorable or unfavorable to the Company given current market conditions on the acquisition date. To the extent the operating lease terms are favorable or unfavorable relative to market conditions on the acquisition date, the Company recognizes an intangible asset or liability at fair value. The Company amortizes any acquired operating lease-related intangibles to facility lease expense over the remaining life of the associated lease plus any estimated renewal periods.

Capital lease assets are valued by the Company as a right-to-use asset. Financing lease assets are valued as if the Company owns the assets and thus are recorded at fair value. Capital and financing lease obligations are valued based on the present value of the estimated lease payments applying a discount rate equal to the Company's estimated incremental borrowing rate at the date of acquisition. Additionally, the valuation of financing lease obligations reflects a residual value component.

The Company calculates the fair value of acquired long-term debt by discounting the remaining contractual cash flows of each instrument at the current market rate for those borrowings, which the Company approximates based on the rate at which the Company would expect to incur a replacement instrument on the date of acquisition, and recognizes any fair value adjustments related to long-term debt as effective yield adjustments over the remaining term of the instrument using primarily Level 2 inputs.

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

In connection with a business combination, the excess of the fair value of liabilities assumed and common stock issued and cash paid over the fair value of identifiable assets acquired is allocated to goodwill, which is not amortized by the Company. Transaction costs associated with business combinations are expensed as incurred.

Deferred Financing Costs

Third-party fees and costs incurred to obtain long-term debt are recorded as a direct adjustment to the carrying value of debt and amortized on a straight-line basis, which approximates the effective yield method, over the term of the related debt. Unamortized deferred financing fees are written-off if the associated debt is retired before the maturity date. Upon the refinancing of mortgage debt or amendment of the line of credit, unamortized deferred financing fees and additional financing costs incurred are accounted for in accordance with ASC 470-50, *Debt Modifications and Extinguishments*.

Stock-Based Compensation

The Company follows ASC 718, *Compensation - Stock Compensation* ("ASC 718") in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. Generally, this cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date are recognized when incurred.

Certain of the Company's employee stock awards vest only upon the achievement of performance targets. ASC 718 requires recognition of compensation cost only when achievement of performance conditions is considered probable. Consequently, the Company's determination of the amount of stock compensation expense requires judgment in estimating the probability of achievement of these performance targets.

For all share-based 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 (or, if applicable, on the accelerated method) 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.

On January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09") and changed its policy from estimating forfeitures to recording forfeitures when they occur. The Company's adoption of ASU 2016-09 did not have a material impact on its consolidated financial statements.

Income Taxes

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

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* 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. 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.

Cash and cash equivalents, marketable securities, and restricted cash are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity.

Cash, Cash Equivalents and Restricted Cash

The Company defines cash and cash equivalents as cash and investments with maturities of 90 days or less when purchased. Restricted cash consists principally of deposits required by certain lenders and lessors pursuant to the applicable agreement and consists of the following:

	December 31,	
	2018	2017
<i>(in thousands)</i>		
Current:		
Real estate tax and property insurance escrows	\$ 18,177	\$ 21,603
Replacement reserve escrows	8,273	10,960
Resident deposits	489	678
Other	744	3,948
Subtotal	<u>27,683</u>	<u>37,189</u>
Long term:		
Insurance deposits	14,370	12,364
CCRC escrows	9,618	8,526
Debt service reserve	280	1,820
Subtotal	<u>24,268</u>	<u>22,710</u>
Total	<u>\$ 51,951</u>	<u>\$ 59,899</u>

Marketable Securities

Investments in commercial paper and corporate bond instruments with original maturities of greater than 90 days are classified as marketable securities.

Accounts Receivable, net

Accounts receivable are reported net of an allowance for doubtful accounts to represent the Company's estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$24.8 million and \$23.1 million as of December 31, 2018 and 2017, respectively. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary.

Billings for services under third-party payor programs are recorded net of estimated retroactive adjustments, if any. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Contractual or cost related adjustments from Medicare or Medicaid are accrued when assessed (without regard to when the assessment is paid or withheld). Subsequent adjustments to these accrued amounts are recorded in net revenues when known.

Assets Held for Sale

The Company designates communities as held for sale when it is probable that the properties will be sold within one year. The Company records these assets on the consolidated balance sheet at the lesser of the carrying value and fair value less estimated selling costs. If the carrying value is greater than the fair value less the estimated selling costs, the Company records an impairment charge. The Company allocates a portion of the goodwill of a reporting unit to the disposal if the disposal constitutes a business. The Company determines the fair value of the communities based primarily on purchase and sale agreements from prospective purchasers (Level 2 input). The Company evaluates the fair value of the assets held for sale each period to determine if it has changed. The long-lived assets are not depreciated while classified as held for sale.

Property, Plant and Equipment and Leasehold Intangibles

Property, plant and equipment and leasehold intangibles, which include amounts recorded under capital and financing leases, are recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset Category	Estimated Useful Life (in years)
Buildings and improvements	40
Furniture and equipment	3 – 7
Resident lease intangibles	1 – 3

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and improvements, which improve and/or extend the useful life of the asset, are capitalized and depreciated over their estimated useful life or if the renovations or improvements are made with respect to communities subject to an operating lease, over the shorter of the estimated useful life of the renovations or improvements, or the term of the operating lease. Assets under capital and financing leases and leasehold improvements are depreciated over the shorter of the estimated useful life of the assets or the term of the lease. Facility operating expense excludes depreciation and amortization directly attributable to the operation of the facility.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset, calculated utilizing the lowest level of identifiable cash flows. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any amount in excess of fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates (Level 3).

Investment in Unconsolidated Ventures

In accordance with ASC 810, *Consolidation*, the general partner or managing member of a venture consolidates the venture unless the limited partners or other members have either (1) the substantive ability to dissolve the venture or otherwise remove the general partner or managing member without cause or (2) substantive participating rights in significant decisions of the venture, including authorizing operating and capital decisions of the venture, including budgets, in the ordinary course of business. The Company has reviewed all ventures where it is the general partner or managing member and has determined that in all cases the limited partners or other members have substantive participating rights such as those set forth above and, therefore, none of these ventures are consolidated.

The initial carrying value of investments in unconsolidated ventures is based on the amount paid to purchase the investment interest or the carrying value of assets contributed to the unconsolidated ventures. The Company's reported share of earnings of an unconsolidated venture is adjusted for the impact, if any, of basis differences between its carrying value of the equity investment and its share of the venture's underlying assets.

Distributions received from an investee are recognized as a reduction in the carrying amount of the investment. If distributions are received from an investee that would reduce the carrying amount of an equity method investment below zero, the Company evaluates the facts and circumstances of the distributions to determine the appropriate accounting for the excess distribution, including an evaluation of the source of the proceeds and implicit or explicit commitments to fund the investee. The excess distribution is either recorded as a gain on investment, or in instances where the source of proceeds is from financing activities or the Company has a significant commitment to fund the investee, the excess distribution would result in an equity method liability and the Company would continue to record its share of the investee's earnings and losses. When the Company does not have a significant requirement to contribute additional capital over and above the original capital commitment and the carrying value of the investment in the unconsolidated venture is reduced to zero, the Company discontinues applying the equity method of accounting unless the venture has an expectation of an imminent return to profitability. If the venture subsequently reports net income, the equity method of accounting is resumed only after the Company's share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The Company evaluates realization of its investment in ventures accounted for using the equity method if circumstances indicate that the Company's investment is other than temporarily impaired. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. If the Company determines that an equity method investment is other than temporarily impaired, it is recorded at its fair value with an impairment charge recognized in asset impairment expense for the difference between its carrying amount and fair value based on Level 3 inputs.

Goodwill and Intangible Assets

The Company follows ASC 350, *Goodwill and Other Intangible Assets*, and tests goodwill for impairment annually during the fourth quarter or whenever indicators of impairment arise. Factors the Company considers important in its analysis of whether an indicator of impairment exists include a significant decline in the Company's stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The Company is not required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value of a reporting unit is less than its carrying value. The fair values used in the quantitative goodwill impairment test are estimated using Level 3 inputs based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense growth rates, capitalization rates and discount rates. The Company also considers market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units. If the quantitative goodwill impairment test results in a reporting unit's carrying value exceeding its estimated fair value, an impairment charge will be recorded based on the difference in accordance with ASU 2017-04, *Intangibles - Goodwill and Other*, with the impairment charge limited to the amount of goodwill allocated to the reporting unit.

Acquired intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and all intangible assets are reviewed for impairment if indicators of impairment arise. The evaluation of impairment for definite-lived intangibles is based upon a comparison of the carrying value of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset (Level 3 input). If estimated future undiscounted net cash flows are less than the carrying value of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

Indefinite-lived intangible assets are not amortized but are tested for impairment annually during the fourth quarter or more frequently as required. The impairment test consists of a comparison of the estimated fair value using Level 3 inputs of the indefinite-lived intangible asset with its carrying value. If the carrying value exceeds its fair value, an impairment loss is recognized for that difference.

Amortization of the Company's definite-lived intangible assets is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset Category	Estimated Useful Life (in years)
Trade names	2 – 5
Other	3 – 9

Convertible Debt Instruments

Convertible debt instruments are accounted for under ASC 470-20, *Debt - Debt with Conversion and Other Options*. This guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion, including partial cash settlement, to separately account for the liability (debt) and equity (conversion option) components of the instruments in a manner that reflects the issuer's estimated non-convertible debt borrowing rate.

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 for each and every claim. As a result, the Company is, in effect, self-insured for claims that are less than the deductible amounts. In addition, the Company maintains a high deductible workers compensation program and a self-insured employee medical program.

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 becomes available.

During the years ended December 31, 2018, 2017 and 2016, the Company reduced its estimate for the amount of expected losses for general liability and professional liability and workers compensation claims based on recent historical claims experience. The reduction in these accrued reserves decreased facility operating expense by \$14.6 million, \$9.9 million and \$35.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Lease Accounting

The Company, as lessee, makes a determination with respect to each of its community leases as to whether each should be accounted for as an operating lease or capital lease. The classification criteria is based on estimates regarding the fair value of the leased community, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements. In a business combination, the Company assumes the lease classification previously determined by the prior lessee absent a modification, as determined by ASC 840, in the assumed lease agreement. Payments made under operating leases are accounted for in the Company's consolidated statements of operations as lease expense for actual rent paid plus or minus a straight-line adjustment for minimum lease escalators and amortization of deferred gains in situations where sale-leaseback transactions have occurred.

For capital and financing lease obligation arrangements, a liability is established on the Company's consolidated balance sheet representing the present value of the future minimum lease payments and a residual value for financing leases and a corresponding long-term asset is recorded in property, plant and equipment and leasehold intangibles in the consolidated balance sheet. For capital lease assets, the asset is depreciated over the remaining lease term unless there is a bargain purchase option in which case the asset is depreciated over the useful life. For financing lease assets, the asset is depreciated over the useful life of the asset. Leasehold improvements purchased during the term of the lease are amortized over the shorter of their economic life or the lease term.

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

Sale-leaseback accounting is applied to transactions in which an owned community is sold and leased back from the buyer if certain continuing involvement criteria are met. Under sale-leaseback accounting, the Company removes the community and related liabilities from the consolidated balance sheet. Gain on the sale is deferred and recognized as a reduction of facility lease expense for operating leases and a reduction of interest expense for capital leases. In cases of sale-leaseback transactions in which the Company has continuing involvement, other than normal leasing activities, the Company does not record the sale until such involvement terminates.

For leases in which the Company is involved with the construction of a building, the Company accounts for the leases during the construction period under the provisions of ASC 840. If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction in progress. Once construction is complete, the Company considers the requirements under ASC Subtopic 840-40. If the arrangement qualifies for sale-leaseback accounting, the Company removes the assets and related liabilities from the consolidated balance sheet. If the arrangement does not qualify for sale-leaseback accounting, the Company continues to amortize the financing obligation and depreciate the assets over the lease term.

Treasury Stock

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

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business* ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business to assist companies in determining whether transactions should be accounted for as an asset acquisition or a business combination. Under ASU 2017-01, if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business and the transaction is accounted for as an asset acquisition. Transaction costs associated with asset acquisitions are capitalized while those associated with business combinations are expensed as incurred. The Company adopted ASU 2017-01 on a prospective basis on January 1, 2018. The changes to the definition of a business may result in certain future acquisitions of real estate, communities or senior housing operating companies being accounted for as asset acquisitions.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash, a consensus of the FASB Emerging Issues Task Force* ("ASU 2016-18"). ASU 2016-18 intends to address the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted ASU 2016-18 on January 1, 2018 and the changes required by ASU 2016-18 were applied retrospectively to all periods presented. The Company has identified that the inclusion of the change in restricted cash within the retrospective presentation of the statements of cash flows resulted in a \$1.0 million increase to the amount of net cash used in investing activities for the year ended December 31, 2017 and a \$5.0 million decrease to the amount of net cash provided by investing activities for the year ended December 31, 2016.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 clarifies how cash receipts and cash payments in certain transactions are presented in the statement of cash flows. Among other clarifications on the classification of certain transactions within the statement of cash flows, the amendments in ASU 2016-15 provide that debt prepayment and extinguishment costs will be classified within financing activities within the statement of cash flows. ASU 2016-15 is effective for the Company for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted ASU 2016-15 on January 1, 2018 and the changes in classification within the statement of cash flows were applied retrospectively to all periods presented. The Company's retrospective application resulted in an \$11.7 million increase to the amount of net cash provided by operating activities and an \$11.7 million decrease to the amount of net cash provided by financing activities for the year ended December 31, 2017 and a \$7.9 million increase to the amount of net cash provided by operating activities and a \$7.9 million increase to the amount of net cash used in financing activities for the year ended December 31, 2016.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The five step model defined by ASU 2014-09 requires the Company to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced disclosure of revenue arrangements. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Company's fiscal year beginning January 1, 2018, and the Company adopted the new standard under the modified retrospective approach. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning retained earnings. The Company has determined that the adoption of ASU 2014-09 did not result in an adjustment to retained earnings as of January 1, 2018.

The Company has determined that the application of ASU 2014-09 resulted in a change to the amounts of resident fee revenue and facility operating expense with no net impact to the amount of income from operations, for the impact of implicit price concessions on the estimation of the transaction price. The Company recognized \$3.4 billion of resident fee revenue and \$2.5 billion of facility operating expense for the year ended December 31, 2018. The impact to resident fee revenue and facility operating expense as a result of applying ASC 606 was a decrease of \$8.4 million for the year ended December 31, 2018.

The Company has determined that the application of ASU 2014-09 resulted in no significant change to the annual amount of revenue recognized for management fees under the Company's community management agreements; however, the Company recognizes an estimated amount of incentive fee revenue earlier during the annual contract period. The Company has determined that the application of ASU 2014-09 resulted in a change to the amounts presented for revenue recognized for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities with no net impact

to the amount of income from operations, as a result of the combination of all community operations management activities as a single performance obligation for each contract. The Company recognized \$1.0 billion of revenue for reimbursed costs incurred on behalf of managed communities and \$1.0 billion of reimbursed costs incurred on behalf of managed communities for the year ended December 31, 2018, in accordance with ASU 2014-09. The impact to revenue for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities as a result of applying ASC 606 was an increase of \$46.1 million for the year ended December 31, 2018.

Additionally, real estate sales are within the scope of ASU 2014-09, as amended by ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets* ("ASU 2017-05"). ASU 2017-05 clarifies the scope of subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. Under ASU 2014-09 and ASU 2017-05, the income recognition for real estate sales is largely based on the transfer of control versus continuing involvement under the former guidance. As a result, more transactions may qualify as sales of real estate and gains or losses may be recognized sooner. The Company adopted ASU 2014-09, as amended by ASU 2017-05, under the modified retrospective approach as of January 1, 2018 and now applies the five step revenue model to all subsequent sales of real estate.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. Additionally, ASU 2016-02 makes targeted changes to lessor accounting, including changes to align certain aspects with the revenue recognition model, and requires enhanced disclosure of lease arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, ASU 2018-11 provides entities with a practical expedient allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. ASU 2016-02 and ASU 2018-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is required to adopt these lease accounting standards effective January 1, 2019 and will utilize the modified retrospective transition method with no adjustments to comparative periods presented. Additionally, the Company will elect the package of practical expedients within ASU 2016-02 that allows an entity to not reassess as of January 1, 2019 its prior conclusions on whether an existing contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs. While the Company continues to assess certain effects of adoption, it has concluded that the most significant effects relate to the recognition of lease liabilities and right-of-use assets for operating leases on the balance sheet and additional disclosures about the Company's leases.

The Company currently expects that the adoption of ASU 2016-02 will result in the recognition of lease liabilities of approximately \$1.6 billion and right-of-use assets on the consolidated balance sheet for its existing community, office, and equipment operating leases based on the remaining minimum rental payments as of January 1, 2019. Such right-of-use asset amount will be recognized based upon the amount of the recognized lease liabilities, adjusted for accrued lease payments, intangible assets, and right of use asset impairment charges. As of December 31, 2018, the Company had a net liability of \$0.2 billion recognized on its consolidated balance sheet for accrued lease payments and intangible assets for operating leases and the Company has concluded that the initially recognized right-of-use assets will be \$0.2 billion less than the lease liabilities recognized as of January 1, 2019. Additionally, the Company has concluded that the previously unrecognized right-of-use assets will be reviewed for impairment effective January 1, 2019, which the Company currently expects will result in a reduction to the initially recognized right-of-use assets and a cumulative effect adjustment to beginning retained earnings as of January 1, 2019. The Company is in the process of evaluating the initial right-of-use asset for impairment. As a result of the Company's planned election of the package of practical expedients within ASU 2016-02, the Company currently expects that there will be no changes to the classification of its existing operating, capital and financing leases as of January 1, 2019 and that there will be no changes to the amounts recognized on its balance sheet for its existing capital and financing leases as of January 1, 2019.

Subsequent to the adoption of ASU 2016-02, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of ASC 842, *Leases* ("ASC 842") and the nonlease components utilizing the provisions of ASC 606. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with ASC 840 prior to the adoption of ASU 2016-02 (such as common area maintenance services, other basic services, and executory costs) are recognized as nonlease components subject to the provisions of ASC 606 subsequent to the adoption of ASU 2016-02. Entities are required to recognize a cumulative effect adjustment to beginning retained earnings as of the initial application date of ASU 2016-02 for changes to amounts recognized for these certain components for the transition from ASC 840 to ASC 606. However, entities are permitted to elect the practical expedient under ASU 2018-11 allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/nonlease component combination practical expedient under ASU 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date with a cumulative effect adjustment to beginning retained earnings as of the initial application date for any changes to amounts recognized related to existing transactions.

For the year ended December 31, 2018, the Company recognized revenue for housing services under independent living, assisted living and memory care residency agreements in accordance with the provisions of ASC 840 and the Company recognized revenue for assistance with activities of daily living, memory care services, healthcare, and personalized health services under independent living, assisted living and memory care residency agreements in accordance with the provisions of ASC 606.

Upon adoption of ASU 2016-02 and ASU 2018-11, the Company will elect the lessor practical expedient within ASU 2018-11 and has concluded that it will recognize, measure, present and disclose the revenue for housing services under the Company's senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC 842 and ASC 606. The Company has determined that the housing services included under the Company's existing independent living, assisted living and memory care residency agreements as of January 1, 2019 have the same timing and pattern of transfer and the Company has concluded that it will recognize the revenue for housing services under the Company's independent living, assisted living and memory care residency agreements based upon the predominant component of the contract.

The Company has concluded that the nonlease components of the Company's independent living, assisted living and memory care residency agreements are the predominant component of the contract for the Company's existing agreements as of January 1, 2019. Additionally, the Company currently expects that the nonlease components of the Company's independent living, assisted living and memory care residency agreements entered into in 2019 will be identified as the predominant component of such contracts. Therefore, beginning January 1, 2019, the Company currently expects that it will recognize revenue for its independent living, assisted living and memory care residency agreements under ASC 606 for the Company's existing agreements as of January 1, 2019 and for agreements entered into thereafter. After the adoption of ASU 2016-02 and ASU 2018-11, the Company currently expects the timing and pattern of revenue recognition will be substantially the same as that prior to the adoption of these standards.

As a result of the Company's planned election of the package of practical expedients within ASU 2016-02, the Company will continue to recognize deferred revenue for existing contracts as of December 31, 2018 over the lease term. In addition, ASU 2016-02 has changed the definition of initial direct costs of a lease, with the initial direct costs that are initially deferred and recognized over the term of the lease limited to costs that are both incremental and direct. The Company has concluded that the contract origination costs recognized on the balance sheet as of December 31, 2018 are in excess of the initial direct costs that would have been deferred under the provisions of ASU 2016-02. As a result of the Company's planned election of the package of practical expedients, the Company currently expects that the contract origination costs recognized on the balance sheet as of December 31, 2018 will continue to be amortized during 2019 over the lease term. The Company currently expects that certain costs previously deferred upon new contract origination will be required to be recognized within facility operating expense in 2019.

The Company is finalizing the impact of the adoption of ASU 2016-02 and 2018-11 on its consolidated balance sheet. The Company has substantially completed the process of estimating the operating lease liabilities as of January 1, 2019, based on the remaining minimum rental payments and the Company's estimate of its incremental borrowing rate as of such date. The Company is in the process of completing its estimate of impairment of its previously unrecognized right-of-use assets effective January 1, 2019. The recognition of the related deferred income tax impact including any impact on the valuation allowance will be finalized once these analyses are completed. The cumulative effect of the adoption will be reflected as an adjustment to beginning accumulated deficit on the Company's balance sheet effective January 1, 2019. Additionally, the Company continues to monitor recent accounting standard setting activities of the FASB, and the Company continues to complete its final evaluation of the impact that the adoption of ASU 2016-02 and ASU 2018-11 will have on its disclosures.

Reclassifications

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

3. Earnings Per Share

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

During the years ended December 31, 2018, 2017 and 2016, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock, restricted stock units and convertible debt instruments and warrants were antidilutive for each year and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock units excluded from the calculations of diluted net loss per share were 6.4 million, 5.2 million and 4.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The calculation of diluted weighted average shares excludes the impact of conversion of the principal amount of \$316.3 million of the Company's 2.75% convertible senior notes which were repaid in cash at their maturity on June 15, 2018. Refer to Note 9 for more information about the Company's former convertible notes. As of December 31, 2017 and 2016, the maximum number of shares issuable upon conversion of the notes was approximately 13.8 million (after giving effect to additional make-whole shares issuable upon conversion in connection with the occurrence of certain events). As of December 31, 2017 and 2016, the maximum number of shares issuable upon conversion of the notes in excess of the amount of principal that would be settled in cash was approximately 3.0 million. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of December 31, 2018, 2017 and 2016, the number of shares issuable upon exercise of the warrants was approximately 0.5 million, 10.8 million, and 10.8 million, respectively. Subsequent to December 31, 2018, the option to exercise the remaining outstanding warrants expired unexercised.

4. Acquisitions, Dispositions and Other Significant Transactions

From 2016 through 2018, the Company disposed of an aggregate of 75 owned communities (50 in 2016, 3 in 2017 and 22 in 2018). The Company also entered into agreements with its largest lessors that restructured a significant portion of its triple-net lease obligations. As a result of the transactions with HCP, Inc. ("HCP") announced in 2016 and 2017 and Ventas, Inc. ("Ventas") and Welltower Inc. ("Welltower") announced in 2018, as well as other lease expirations and terminations, the Company's triple-net lease obligations on an aggregate of 201 communities were terminated from 2016 to 2018 (7 in 2016, 105 in 2017 and 89 in 2018). During this period the Company also sold its ownership interests in seven unconsolidated ventures and acquired six communities that it previously leased or managed. As of December 31, 2018, the Company owned 344 communities, leased 343 communities, managed 18 communities on behalf of unconsolidated ventures, and managed 187 communities on behalf of third parties.

The following table sets forth, for the periods indicated, the amounts included within the Company's consolidated financial statements for the 276 communities that it disposed through sales and lease terminations for the years ended December 31, 2018, 2017 and 2016 through the respective disposition dates:

<i>(in thousands)</i>	Year Ended December 31,		
	2018	2017	2016
Resident fees			
Independent Living	\$ 81,280	\$ 152,190	\$ 189,205
Assisted Living and Memory Care	205,241	423,302	642,782
CCRCs	15,965	78,392	201,613
Senior housing resident fees	302,486	653,884	1,033,600
Facility operating expense			
Independent Living	48,154	90,134	110,014
Assisted Living and Memory Care	145,106	294,528	443,137
CCRCs	14,542	68,702	169,297
Senior housing facility operating expense	207,802	453,364	722,448
Cash lease payments	\$ 78,264	\$ 172,442	\$ 259,114

During the year ending December 31, 2019, the Company expects to close on the dispositions of 13 owned communities classified as held for sale as of December 31, 2018. The closings of the various pending and expected transactions are, or will be, subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. However, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

2018 Welltower Lease and RIDEA Venture Restructuring

On June 27, 2018, the Company announced that it had entered into definitive agreements with Welltower. The components of the agreements include:

- *Lease Terminations.* The Company and Welltower agreed to early termination of the Company's triple-net lease obligations on 37 communities effective June 30, 2018. The communities were part of two lease portfolios due to mature in 2028 (27 communities) and 2020 (10 communities). The Company paid Welltower an aggregate lease termination fee of \$58.0 million. The Company agreed to manage the foregoing 37 communities on an interim basis until the communities have been transitioned to new managers, and such communities are reported in the Management Services segment during such interim period. The Company recognized a \$22.6 million loss on lease termination during the year ended December 31, 2018 for the amount by which the aggregate lease termination fee exceeded the net carrying value of the Company's assets and liabilities under operating and capital leases as of the lease termination date.
- *Future Lease Terminations.* The parties separately agreed to allow the Company to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and the Company would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.
- *RIDEA Restructuring.* The Company sold its 20% equity interest in its existing Welltower RIDEA venture to Welltower, effective June 30, 2018 for net proceeds of \$33.5 million (for which the Company recognized a \$14.7 million gain on sale). The Company agreed to continue to manage the communities in the venture on an interim basis until the communities have been transitioned to new managers, and such communities are reported in the Management Services segment during such interim period.

The Company also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities). After conclusion of the foregoing lease expirations, the Company continues to operate 74 communities under triple-net leases with Welltower, and the Company's remaining lease agreements with Welltower contain a change of control standard that allows the Company to engage in certain change of control and other transactions without the need to obtain Welltower's consent, subject to the satisfaction of certain conditions.

2018 Ventas Lease Portfolio Restructuring

On April 26, 2018, the Company entered into several agreements to restructure a portfolio of 128 communities it leased from Ventas as of such date, including a Master Lease and Security Agreement (the "Ventas Master Lease"). The Ventas Master Lease amended and restated prior leases comprising an aggregate portfolio of 107 communities into the Ventas Master Lease. Under the Ventas Master Lease and other agreements entered into on April 26, 2018, the 21 additional communities leased by the Company from Ventas pursuant to separate lease agreements have been or will be combined automatically into the Ventas Master Lease upon the first to occur of Ventas' election or the repayment of, or receipt of lender consent with respect to, mortgage debt underlying such communities (17 of which have been and four will be combined into the Ventas Master Lease). The Company and Ventas agreed to observe, perform and enforce such separate leases as if they had been combined into the Ventas Master Lease effective April 26, 2018, to the extent not in conflict with any mortgage debt underlying such communities. The transaction agreements with Ventas further provide that the Ventas Master Lease and certain other agreements between the Company and Ventas will be cross-defaulted.

The initial term of the Ventas Master Lease ends December 31, 2025, with two 10-year extension options available to the Company. In the event of the consummation of a change of control transaction of the Company on or before December 31, 2025, the initial term of the Ventas Master Lease will be extended automatically through December 31, 2029. The Ventas Master Lease and separate lease agreements with Ventas, which are guaranteed at the parent level by the Company, provided for total rent in 2018 of \$175.0 million for the 128 communities, including the pro-rata portion of an \$8.0 million annual rent credit for 2018. The Company will receive an annual rent credit of \$8.0 million in 2019, \$7.0 million in 2020 and \$5.0 million thereafter; provided, that if a change of control of the Company occurs prior to 2021, the annual rent credit will be reduced to \$5.0 million. Effective on January 1, 2019 and in succeeding years, the annual minimum rent is subject to an escalator equal to the lesser of 2.25% or four times the Consumer Price Index ("CPI") increase for the prior year (or zero if there was a CPI decrease).

The Ventas Master Lease requires the Company to spend (or escrow with Ventas) a minimum of \$2,000 per unit per 24-month period commencing with the 24-month period ending December 31, 2019 and thereafter each 24-month period ending December 31 during the lease term, subject to annual increases commensurate with the escalator beginning with the second lease year of the first extension term (if any). If a change of control of the Company occurs, the Company will be required within 36 months following the closing of such transaction to invest (or escrow with Ventas) an aggregate of \$30.0 million in the communities for revenue-enhancing capital projects.

Under the definitive agreements with Ventas, the Company, at the parent level, must satisfy certain financial covenants (including tangible net worth and leverage ratios) and may consummate a change of control transaction without the need for consent of Ventas so long as certain objective conditions are satisfied, including the post-transaction guarantor's satisfying certain enhanced minimum tangible net worth and maximum leverage ratio, having minimum levels of operational experience and reputation in the senior living industry, and paying a change of control fee of \$25.0 million to Ventas.

At the Company's option, which must be exercised on or before April 26, 2019, the Company may provide notice to Ventas of the Company's election to direct Ventas to market for sale one or more communities with up to approximately \$30.0 million of annual minimum rent. Upon receipt of such notice, Ventas will be obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community will be subject to Ventas' receiving a purchase price in excess of a minimum sale price to be mutually agreed by the Company and Ventas and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%.

The Company estimated the fair value of each of the elements of the restructuring transactions. The fair value of the future lease payments is based upon historical and forecasted community cash flows and market data, including a management fee rate of 5% of revenue and a market supported lease coverage ratio (Level 3 inputs). The Company recognized a \$125.7 million non-cash loss on lease modification in the year ended December 31, 2018, primarily for the extensions of the triple-net lease obligations for communities with lease terms that are unfavorable to the Company given current market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases.

2017 HCP Master Lease Transaction and RIDEA Ventures Restructuring

On November 2, 2017, the Company announced that it had entered into a definitive agreement for a multi-part transaction with HCP. As part of such transaction, the Company entered into an Amended and Restated Master Lease and Security Agreement ("HCP Master Lease") with HCP effective as of November 1, 2017. The components of the multi-part transaction include:

- *Master Lease Transactions.* The Company and HCP amended and restated triple-net leases covering substantially all of the communities the Company leased from HCP as of November 1, 2017 into the HCP Master Lease. During the year ended December 31, 2018, the Company acquired two communities formerly leased for an aggregate purchase price of \$35.4 million and leases with respect to 33 communities were terminated, and such communities were removed from the HCP Master Lease, which completed the terminations of leases as provided in the HCP Master Lease. We agreed to manage communities for which leases were terminated on an interim basis until the communities have been transitioned to new managers, and such communities are reported in the Management Services segment during such interim period. The Company continues to lease 43 communities pursuant to the terms of the HCP Master Lease, which have the same lease rates and expiration and renewal terms as the applicable prior instruments, except that effective January 1, 2018, the Company received a \$2.5 million annual rent reduction for two communities. The HCP Master Lease also provides that the Company may engage in certain change in control and other transactions without the need to obtain HCP's consent, subject to the satisfaction of certain conditions.
- *RIDEA Ventures Restructuring.* Pursuant to the multi-part transaction agreement, HCP acquired the Company's 10% ownership interest in one of the Company's RIDEA ventures with HCP in December 2017 for \$32.1 million (for which the Company recognized a \$7.2 million gain on sale) and the Company's 10% ownership interest in the remaining RIDEA venture with HCP in March 2018 for \$62.3 million (for which the Company recognized a \$41.7 million gain on sale). The Company provided management services to 59 communities on behalf of the two RIDEA ventures as of November 1, 2017. Pursuant to the multi-part transaction agreement, the Company acquired one community for an aggregate purchase price of \$32.1 million in January 2018 and three communities for an aggregate purchase price of \$207.4 million in April 2018 and retained management of 18 of such communities. The amended and restated management agreements for such 18 communities have a term set to expire in 2030, subject to certain early termination rights. In addition, HCP will be entitled to sell or transition operations and/or management of 37 of such communities. Management agreements for 31 such communities were terminated by HCP during the year ended December 31, 2018 (for which the Company recognized an \$8.7 million non-cash management contract termination gain) and the Company expects the termination of management agreements on the remaining six communities to occur during 2019.

The Company financed the foregoing community acquisitions with non-recourse mortgage financing and proceeds from the sales of its ownership interest in the unconsolidated ventures. See Note 9 for more information regarding the non-recourse first mortgage financing.

In addition, the Company obtained future annual cash rent reductions and waived management termination fees in the multi-part transaction. As a result of the multi-part transaction, the Company reduced its lease liabilities by \$9.7 million for the future annual cash rent reductions and recognized a \$9.7 million deferred liability for the consideration received from HCP in advance of the termination of the management agreements for the 37 communities.

As a result of the modification of the remaining lease term for communities subject to capital leases, the Company reduced the carrying value of capital lease obligations and assets under capital leases by \$145.6 million in 2017. During the year ended December 31, 2018, the results and financial position of the 33 communities for which leases were terminated were deconsolidated from the Company prospectively upon termination of the lease obligations. The Company derecognized the \$332.8 million carrying value of the assets under financing leases and the \$378.3 million carrying value of financing lease obligations for 20 communities which were previously subject to sale-leaseback transactions in which the Company was deemed to have continuing involvement. The Company recognized a sale for these 20 communities and recorded a non-cash gain on sale of assets of \$44.2 million for the year ended December 31, 2018. Additionally, the Company recognized a non-cash gain on lease termination of \$1.5 million for the year ended December 31, 2018, for the derecognition of the net carrying value of the Company's assets and liabilities under operating and capital leases at the lease termination date.

Blackstone Venture

On March 29, 2017, the Company and affiliates of Blackstone Real Estate Advisors VIII L.P. (collectively, "Blackstone") formed a venture (the "Blackstone Venture") that acquired 64 senior housing communities for a purchase price of \$1.1 billion. The Company had previously leased the 64 communities from HCP under long-term lease agreements with a remaining average lease term of approximately 12 years. At the closing, the Blackstone Venture purchased the 64-community portfolio from HCP subject to the existing leases, and the Company contributed its leasehold interests for 62 communities and a total of \$179.2 million in cash to purchase a 15% equity interest in the Blackstone Venture, terminate leases, and fund its share of closing costs. As of the formation date, the Company continued to operate two of the communities under lease agreements and began managing 60 of the communities on behalf of the venture under a management agreement with the venture. Two of the communities were managed by a third party for the venture. The results and financial position of the 62 communities for which leases were terminated were deconsolidated

from the Company prospectively upon formation of the Blackstone Venture. The Company accounted for the venture under the equity method of accounting.

Initially, the Company determined that the contributed carrying value of the Company's investment was \$66.8 million, representing the amount by which the \$179.2 million cash contribution exceeded the carrying value of the Company's liabilities under operating, capital and financing leases contributed by the Company net of the carrying value of the assets under such operating, capital and financing leases. However, the Company estimated the fair value of its 15% equity interest in the Blackstone Venture at inception to be \$47.1 million (using Level 3 inputs). As a result, the Company recorded a \$19.7 million charge within goodwill and asset impairment expense for the three months ended March 31, 2017 for the amount of the contributed carrying value in excess of the estimated fair value of the Company's investment.

During the three months ended March 31, 2018, the Company recorded a \$33.4 million non-cash impairment charge within goodwill and asset impairment expense to reflect the amount by which the carrying value of the investment exceeded the estimated fair value (using Level 3 inputs).

Additionally, these transactions related to the Blackstone Venture required the Company to record a significant increase to the Company's existing tax valuation allowance, after considering the change in the Company's future reversal of estimated timing differences resulting from these transactions, primarily due to removing the deferred positions related to the contributed leases. During the three months ended March 31, 2017, the Company recorded a provision for income taxes to establish an additional \$85.0 million of valuation allowance against its federal and state net operating loss carryforwards and tax credits as the Company anticipates these carryforwards and credits will not be utilized prior to expiration. See Note 16 for more information about the Company's deferred income taxes.

During the third quarter of 2018, leases for the two communities owned by the Blackstone Venture were terminated and the Company sold its 15% equity interest in the Blackstone Venture to Blackstone. The Company paid Blackstone an aggregate fee of \$2.0 million to complete the multi-part transaction and recognized a \$3.8 million gain on sale of assets for the amount by which the net carrying value of the Company's assets and liabilities disposed of exceeded the aggregate transaction cost.

2016 HCP Agreements

On November 1, 2016, the Company announced that it had entered into agreements to, among other things, terminate triple-net leases with respect to 97 communities that it leased from HCP, four of which were contributed to a then existing unconsolidated venture in which the Company holds an equity interest and 64 of which were acquired by the Blackstone Venture described above. In addition to the formation of the Blackstone Venture, the transactions included the following components with respect to 33 communities:

- The Company and HCP agreed to terminate triple-net leases with respect to eight communities. HCP agreed to contribute immediately thereafter four of such communities to a then existing unconsolidated venture with HCP in which the Company has a 10% equity interest. During the three months ended December 31, 2016, the triple-net leases with respect to seven communities were terminated and HCP contributed four of the communities to the unconsolidated venture. The triple-net lease with respect to the remaining community was terminated during January 2017.
- The Company and HCP agreed to terminate triple-net leases with respect to 25 communities. During the year ended December 31, 2017, the Company's triple-net lease obligations with respect to such communities were terminated. The Company agreed to manage communities for which leases were terminated on an interim basis until the communities were transitioned to new managers, and such communities were reported in the Management Services segment during such interim period.

As a result of such transactions, during 2017 the Company derecognized the \$145.3 million carrying value of the assets under financing leases and the \$156.7 million carrying value of financing lease obligations for 21 communities which were previously subject to sale-leaseback transactions in which the Company was deemed to have continuing involvement for accounting purposes, and recorded an \$11.4 million gain on sale of assets.

Completed and Planned Dispositions of Owned Communities

During the year ended December 31, 2018, the Company completed the sale of 22 owned communities for cash proceeds of \$380.7 million, net of transaction costs, and recognized a net gain on sale of assets of \$188.6 million. The Company utilized a portion of the cash proceeds from the asset sales to repay approximately \$174 million of associated mortgage debt and debt prepayment penalties. Nineteen of such dispositions were part of the Company's plan announced in 2018, including the sale of Brookdale

Battery Park on November 1, 2018 for which the Company received proceeds of approximately \$144 million, net of associated debt and transaction costs, and the sale of 18 other communities on December 20, 2018 for which the Company received proceeds of approximately \$49 million, net of associated debt and transaction costs.

During the year ended December 31, 2017, the Company completed the sale of three owned communities for cash proceeds of \$8.2 million net of associated transaction costs, and during the year ended December 31, 2016, the Company completed the sale of 50 owned communities for cash proceeds of \$297.9 million net of associated transaction costs.

As of December 31, 2018, 13 communities were classified as held for sale, resulting in \$93.1 million being recorded as assets held for sale and \$31.2 million of mortgage debt being included in the current portion of long-term debt within the consolidated balance sheet with respect to such communities. This debt will either be repaid with the proceeds from the sales or be assumed by the prospective purchasers.

5. Fair Value Measurements

Marketable Securities

As of December 31, 2018, marketable securities of \$14.9 million are stated at fair value based on valuations provided by third-party pricing services and are classified within Level 2 of the valuation hierarchy. The Company recognized gains of \$1.4 million and \$0.6 million for marketable securities within interest income on the Company's consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively.

Interest Rate Derivatives

The Company's derivative assets include interest rate caps that effectively manage the risk above certain interest rates for a portion of the Company's variable rate debt. The derivative positions are valued using models developed internally by the respective counterparty that use as their basis readily available observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. The Company considers the credit risk of its counterparties when evaluating the fair value of its derivatives. The following table summarizes the Company's interest rate cap instruments as of December 31, 2018:

(in thousands)

Current notional balance	\$	1,187,979
Weighted average fixed cap rate		4.57%
Earliest maturity date		2020
Latest maturity date		2022
Estimated asset fair value (included in other assets, net at December 31, 2018)	\$	150
Estimated asset fair value (included in other assets, net at December 31, 2017)	\$	38

Debt

The Company estimates the fair value of its debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt (excluding capital and financing lease obligations) with a carrying value of approximately \$3.6 billion and \$3.9 billion as of December 31, 2018 and 2017, respectively. Fair value of the debt approximates carrying value in all periods. The Company's fair value of debt disclosure is classified within Level 2 of the valuation hierarchy.

Goodwill and Asset Impairment Expense

The following is a summary of goodwill and asset impairment expense.

<i>(in millions)</i>	For the Years Ended December 31,		
	2018	2017	2016
Goodwill (Note 8)	\$ 351.7	\$ 205.0	\$ —
Property, plant and equipment and leasehold intangibles, net (Note 7)	78.0	164.4	166.2
Investment in unconsolidated ventures (Note 6)	33.4	25.8	36.8
Other intangible assets, net (Note 8)	9.1	14.6	29.7
Assets held for sale (Note 4)	15.6	—	15.8
Other assets	2.1	—	—
Goodwill and asset impairment	<u>\$ 489.9</u>	<u>\$ 409.8</u>	<u>\$ 248.5</u>

Goodwill

During the three months ended September 30, 2017, the Company identified qualitative indicators of impairment of goodwill, including a significant decline in the Company's stock price and market capitalization for a sustained period since the last testing date, significant underperformance relative to historical and projected operating results, and an increased competitive environment in the senior living industry. Based upon the Company's qualitative assessment, the Company performed an interim quantitative goodwill impairment test as of September 30, 2017, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value.

In estimating the fair value of the reporting units for purposes of the quantitative goodwill impairment test, the Company utilized an income approach, which included future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at the cash flow projections, the Company considered its historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. In using the income approach to estimate the fair value of reporting units for purposes of its goodwill impairment test, the Company made certain key assumptions. Those assumptions include future revenues, facility operating expenses, and cash flows, including sales proceeds that the Company would receive upon a sale of the communities using estimated capitalization rates, all of which are considered Level 3 inputs in the valuation hierarchy within ASC 820. The Company corroborated the estimated capitalization rates used in these calculations with capitalization rates observable from recent market transactions. Future cash flows are discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. The Company also considered market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units.

Based on the results of the Company's quantitative goodwill impairment test, the Company determined that the carrying value of the Company's Assisted Living and Memory Care reporting unit exceeded its estimated fair value by \$205.0 million as of September 30, 2017. As a result, the Company recorded a non-cash impairment charge of \$205.0 million to goodwill within the Assisted Living and Memory Care segment for the three months ended September 30, 2017. The Company concluded that goodwill for all reporting units was not impaired as of October 1, 2017 (the Company's annual measurement date) and as of December 31, 2017.

During the three months ended March 31, 2018, the Company identified qualitative indicators of impairment of goodwill, including a significant decline in the Company's stock price and market capitalization for a sustained period during the three months ended March 31, 2018. As a result, the Company performed an interim quantitative goodwill impairment test as of March 31, 2018, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. In estimating the fair value of the reporting units for purposes of the quantitative goodwill impairment test, the Company utilized an income approach, which included future cash flow projections that are developed internally. Based on the results of the Company's quantitative goodwill impairment test, the Company determined that the carrying value of the Company's Assisted Living and Memory Care reporting unit exceeded its estimated fair value by more than the \$351.7 million carrying value as of March 31, 2018. As a result, the Company recorded a non-cash impairment charge of \$351.7 million to goodwill within the Assisted Living and Memory Care segment for the three months ended March 31, 2018.

The Company concluded that goodwill for all reporting units was not impaired as of October 1, 2018 (the Company's annual measurement date) and as of December 31, 2018. Goodwill allocated to the Company's Independent Living and Health Care Services

reporting units is approximately \$27.3 million and \$126.8 million, respectively, as of December 31, 2018.

Determining the fair value of the Company's reporting units involves the use of significant estimates and assumptions, which the Company believes to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk-adjusted discount rates. Future events may indicate differences from management's current judgments and estimates which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact capitalization and discount rates, differences in the projected occupancy rates and changes in the cost structure of existing communities. Significant adverse changes in the Company's future revenues and/or operating margins, significant changes in the market for senior housing or the valuation of the real estate of senior living communities, as well as other events and circumstances, including but not limited to increased competition and changing economic or market conditions, including market control premiums, could result in changes in fair value and the determination that additional goodwill is impaired.

Property, Plant and Equipment and Leasehold Intangibles

During the years ended December 31, 2018, 2017 and 2016, the Company evaluated property, plant and equipment and leasehold intangibles for impairment and identified properties with a carrying amount of the assets in excess of the estimated future undiscounted net cash flows expected to be generated by the assets. The Company compared the estimated fair value of the assets to their carrying value for these identified properties and recorded an impairment charge for the excess of carrying value over fair value. The Company recorded property, plant and equipment and leasehold intangibles non-cash impairment charges in its operating results of \$78.0 million, \$164.4 million and \$166.2 million for the years ended December 31, 2018, 2017 and 2016, respectively, primarily within the Assisted Living and Memory Care segment.

The fair values of the property, plant and equipment of these communities were primarily determined utilizing a direct capitalization method considering stabilized facility operating income and market capitalization rates. These fair value measurements are considered Level 3 measurements within the valuation hierarchy. The range of capitalization rates utilized was 6.5% to 9.0%, depending upon the property type, geographical location, and the quality of the respective community. The Company corroborated the estimated fair values with a sales comparison approach with information observable from recent market transactions. These impairment charges are primarily due to lower than expected operating performance at these properties and reflect the amount by which the carrying values of the assets exceeded their estimated fair value.

Investment in Unconsolidated Ventures

The Company evaluates realization of its investment in ventures accounted for using the equity method if circumstances indicate that the Company's investment is other than temporarily impaired. During the years ended December 31, 2018, 2017 and 2016, the Company recorded \$33.4 million, \$25.8 million and \$36.8 million, respectively, of non-cash impairment charges related to investments in unconsolidated ventures. These impairment charges are primarily due to lower than expected operating performance at the communities owned by the unconsolidated ventures and reflect the amount by which the carrying values of the investments exceeded their estimated fair value. Refer to Note 4 for more information about the impairment of the Blackstone Venture during 2017.

Other Intangible Assets

During 2018, the Company identified indicators of impairment for the Company's home health care licenses, including significant underperformance relative to historical and projected operating results, the impact of lower reimbursement rates from Medicare for home health care services, and an increased competitive environment in the home health care industry. The Company performed a quantitative impairment test, which included a comparison of the estimated fair value of the Company's home health care licenses to the carrying value. In estimating the fair value of the home health licenses for purposes of the quantitative impairment test, the Company utilized an income approach, which included future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at the cash flow projections, the Company considered its historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors, all of which are considered Level 3 inputs in the valuation hierarchy within ASC 820.

Based on the results of the Company's quantitative impairment test, the Company determined that the carrying amount of certain of the Company's home health care licenses exceeded their estimated fair value by \$9.1 million. As a result, the Company recorded a non-cash impairment charge of \$9.1 million to intangible assets within the Health Care Services segment for the year ended December 31, 2018.

During 2017, the Company identified indicators of impairment for the Company's home health care licenses in Florida, including significant underperformance relative to historical and projected operating results, decreases in reimbursement rates from Medicare for home health care services, an increased competitive environment in the home health care industry, and disruption from the impact of Hurricane Irma. The Company performed a quantitative impairment test, which included a comparison of the estimated fair value of the Company's home health care licenses to the carrying value. In estimating the fair value of the home health licenses for purposes of the quantitative impairment test, the Company utilized an income approach, which included future cash flow projections that are developed internally. In arriving at the cash flow projections, the Company considered its historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors, all of which are considered Level 3 inputs in the valuation hierarchy within ASC 820.

Based on the results of the Company's quantitative impairment test, the Company determined that the carrying amount of certain of the Company's home health care licenses in Florida exceeded their estimated fair value by \$14.6 million. As a result, the Company recorded a non-cash impairment charge of \$14.6 million to intangible assets within the Health Care Services segment during the year ended December 31, 2017.

During 2016, the Company recorded \$28.2 million of non-cash impairment charges related to community purchase options. These impairment charges are primarily due to lower than expected operating performance at the communities subject to the community purchase options and reflect the amount by which the carrying values of the community purchase options exceeded their estimated fair value. The fair values of the community purchase options were determined utilizing a direct capitalization method considering stabilized facility operating income and market capitalization rates for the underlying property subject to the community purchase option. These fair value measurements are considered Level 3 measurements in the valuation hierarchy within ASC 820. These impairment charges are primarily due to lower than expected operating performance at these properties and reflect the amount by which the carrying values of the assets exceeded their estimated fair value.

Assets Held for Sale

During the year ended December 31, 2018, the Company recognized \$15.6 million of impairment charges related to communities identified as held for sale, primarily due to changes in the estimated fair values. During the year ended December 31, 2017, the Company did not record impairment expense related to communities identified as held for sale. During the year ended December 31, 2016, the Company recorded \$15.8 million of non-cash impairment charges related to communities identified as held for sale, inclusive of the allocation of goodwill to the disposed communities. These impairment charges are primarily due to the excess of carrying value, including allocated goodwill, over the estimated selling price less costs to dispose. Refer to Note 4 for more information about the Company's community dispositions and assets held for sale.

6. Variable Interest Entities and Investment in Unconsolidated Ventures

Variable Interest Entities

As of December 31, 2018, the Company has an equity interest in an unconsolidated VIE. The Company has determined that it does not have the power to direct the activities of the VIE that most significantly impact its economic performance and is not the primary beneficiary of the VIE in accordance with ASC 810. The Company's interests in the VIE are, therefore, accounted for under the equity method of accounting.

The Company holds a 51% equity interest, and HCP owns a 49% interest, in a venture that owns and operates entry fee CCRCs (the "CCRC Venture"). The CCRC Venture's opco has been identified as a VIE. The equity members of the CCRC Venture's opco share certain operating rights, and the Company acts as manager to the CCRC Venture opco. However, the Company does not consolidate this VIE because it does not have the ability to control the activities that most significantly impact this VIE's economic performance. The assets of the CCRC Venture opco primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable and cash and cash equivalents. The obligations of the CCRC Venture opco primarily consist of community lease obligations, mortgage debt, accounts payable, accrued expenses and refundable entrance fees.

The carrying value and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company's involvement with this VIE are summarized below as of December 31, 2018 (in millions):

VIE Type	Asset Type	Maximum Exposure to Loss	Carrying Amount
CCRC Venture opco	Investment in unconsolidated ventures	\$ 20.7	\$ 20.7

As of December 31, 2018, the Company is not required to provide financial support, through a liquidity arrangement or otherwise, to its unconsolidated VIE.

Investment in Unconsolidated Ventures

The Company holds a 51% equity interest in the CCRC Venture as of December 31, 2018. Refer to Note 4 for information on the Company's investment in and sale of certain of its ownership interests in unconsolidated ventures during the years ended December 31, 2018 and 2017. Summarized financial information of all unconsolidated ventures accounted for under the equity method was as follows (reflecting the period of the Company's ownership of an equity interest):

(in millions)

Statement of Operations Information	For the Years Ended December 31,		
	2018	2017	2016
Resident fee revenue	\$ 793	\$ 1,354	\$ 1,133
Facility operating expense	(592)	(946)	(779)
Net income (loss)	\$ (39)	\$ (81)	\$ (4)

(in millions)

Balance Sheet Information	As of December 31,	
	2018	2017
Current assets	\$ 66	\$ 164
Noncurrent assets	1,148	4,050
Current liabilities	563	672
Noncurrent liabilities	\$ 715	\$ 2,813

During the year ended December 31, 2016, the CCRC Venture obtained non-recourse mortgage financing on certain communities and received proceeds of \$434.5 million. The CCRC Venture distributed the net proceeds to its investors and the Company received proceeds of \$221.6 million. As a result of the distribution, the Company's carrying value of its equity method investment in the CCRC Venture propco was reduced below zero and the Company has recorded a \$56.6 million and \$49.5 million equity method liability within other liabilities within the consolidated balance sheet as of December 31, 2018 and 2017, respectively.

Refer to Note 5 for information on impairment expense for investments in unconsolidated ventures.

7. Property, Plant and Equipment and Leasehold Intangibles, Net

As of December 31, 2018 and 2017, net property, plant and equipment and leasehold intangibles, which include assets under capital and financing leases, consisted of the following:

<i>(in thousands)</i>	As of December 31,	
	2018	2017
Land	\$ 456,912	\$ 449,295
Buildings and improvements	4,919,789	4,923,621
Leasehold improvements	123,366	124,850
Furniture and equipment	1,036,113	1,006,889
Resident and leasehold operating intangibles	477,827	594,748
Construction in progress	57,636	74,678
Assets under capital and financing leases	1,251,159	1,742,384
Property, plant and equipment and leasehold intangibles	8,322,802	8,916,465
Accumulated depreciation and amortization	(3,047,375)	(3,064,320)
Property, plant and equipment and leasehold intangibles, net	\$ 5,275,427	\$ 5,852,145

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise. Refer to Note 5 for information on impairment expense for property, plant and equipment and leasehold intangibles.

For the years ended December 31, 2018, 2017 and 2016, the Company recognized depreciation and amortization expense on its property, plant and equipment and leasehold intangibles of \$444.3 million, \$479.4 million and \$514.2 million, respectively.

Future amortization expense for resident and leasehold operating intangibles is estimated to be as follows (in thousands):

Year Ending December 31,	Future Amortization
2019	\$ 7,960
2020	2,213
2021	1,310
2022	803
2023	803
Thereafter	2,705
Total	<u>\$ 15,794</u>

8. Goodwill and Other Intangible Assets, Net

The following is a summary of the carrying amount of goodwill presented on an operating segment basis.

	December 31, 2018			
<i>(in thousands)</i>	Gross Carrying Amount	Dispositions and Other Reductions	Accumulated Impairment	Net
Independent Living	\$ 28,141	\$ (820)	\$ —	\$ 27,321
Assisted Living and Memory Care	605,469	(48,817)	(556,652)	—
Health Care Services	126,810	—	—	126,810
Total	<u>\$ 760,420</u>	<u>\$ (49,637)</u>	<u>\$ (556,652)</u>	<u>\$ 154,131</u>
	December 31, 2017			
<i>(in thousands)</i>	Gross Carrying Amount	Dispositions and Other Reductions	Accumulated Impairment	Net
Independent Living	\$ 28,141	\$ (820)	\$ —	\$ 27,321
Assisted Living and Memory Care	605,469	(48,817)	(205,000)	351,652
Health Care Services	126,810	—	—	126,810
Total	<u>\$ 760,420</u>	<u>\$ (49,637)</u>	<u>\$ (205,000)</u>	<u>\$ 505,783</u>

Goodwill is tested for impairment annually with a test date of October 1 or sooner if indicators of impairment are present. Factors the Company considers important in its analysis, which could trigger an impairment of such assets, include significant underperformance relative to historical or projected future operating results, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period and a decline in its market capitalization below net book value. A change in anticipated operating results or the other metrics indicated above could necessitate further analysis of potential impairment at an interval prior to the Company's annual measurement date. Refer to Note 5 for information on impairment expense for goodwill.

The following is a summary of other intangible assets.

December 31, 2018			
<i>(in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	\$ 4,738	\$ —	\$ 4,738
Health care licenses	42,323	—	42,323
Trade names	27,800	(26,295)	1,505
Management contracts	9,610	(6,704)	2,906
Total	<u>\$ 84,471</u>	<u>\$ (32,999)</u>	<u>\$ 51,472</u>

December 31, 2017			
<i>(in thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	\$ 9,533	\$ —	\$ 9,533
Health care licenses	50,927	—	50,927
Trade names	27,800	(23,714)	4,086
Management contracts	11,360	(7,929)	3,431
Total	<u>\$ 99,620</u>	<u>\$ (31,643)</u>	<u>\$ 67,977</u>

Amortization expense related to definite-lived intangible assets for the years ended December 31, 2018, 2017 and 2016 was \$3.1 million, \$5.6 million and \$9.2 million, respectively. Health care licenses were determined to be indefinite-lived intangible assets and are not subject to amortization. The community purchase options are not amortized, but will be added to the cost basis of the related communities if the option is exercised, and will then be depreciated over the estimated useful life of the community. The Company is amortizing the trade names and management contract intangibles assets over their estimated weighted average useful lives of five years and nine years, respectively. Refer to Note 5 for information on impairment expense for other intangible assets.

Future amortization expense for intangible assets with definite lives is estimated to be as follows (in thousands):

Year Ending December 31,	Future Amortization
2019	\$ 2,140
2020	635
2021	635
2022	635
2023	366
Thereafter	—
Total	<u>\$ 4,411</u>

9. Debt

Long-term Debt and Capital and Financing Lease Obligations

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

	December 31,	
	2018	2017
<i>(in thousands)</i>		
Mortgage notes payable due 2019 through 2047; weighted average interest rate of 4.75% in 2018, less debt discount and deferred financing costs of \$18.6 million and \$16.6 million in 2018 and 2017, respectively (weighted average interest rate of 4.59% in 2017)	\$ 3,579,931	\$ 3,497,762
Capital and financing lease obligations payable through 2032; weighted average interest rate of 7.99% in 2018 (weighted average interest rate of 6.75% in 2017)	874,476	1,271,554
Convertible notes payable in aggregate principal amount of \$316.3 million, less debt discount and deferred financing costs of \$6.4 million in 2017, interest at 2.75% per annum	—	309,853
Other notes payable, weighted average interest rate of 5.85% in 2018 (weighted average interest rate of 5.98% in 2017) and maturity dates ranging from 2019 to 2021	60,249	63,122
Total long-term debt and capital and financing lease obligations	4,514,656	5,142,291
Less current portion	317,561	602,501
Total long-term debt and capital and financing lease obligations, less current portion	\$ 4,197,095	\$ 4,539,790

As of December 31, 2018 and 2017, the current portion of long-term debt within the Company's consolidated financial statements includes \$31.2 million and \$30.1 million, respectively, of mortgage notes payable secured by assets held for sale. This debt will either be assumed by the prospective purchasers or be repaid with the proceeds from the sales. Refer to Note 4 for more information about the Company's assets held for sale.

The annual aggregate scheduled maturities of long-term debt and capital and financing lease obligations outstanding as of December 31, 2018 are as follows (in thousands):

Year Ending December 31,	Long-term Debt	Capital and Financing Lease Obligations	Total
2019	\$ 296,986	\$ 88,339	\$ 385,325
2020	389,805	98,516	488,321
2021	336,006	90,242	426,248
2022	323,606	91,632	415,238
2023	276,407	93,103	369,510
Thereafter	2,036,017	1,041,987	3,078,004
Total obligations	3,658,827	1,503,819	5,162,646
Less amount representing debt discount and deferred financing costs, net	(18,647)	—	(18,647)
Less amount representing interest (weighted average interest rate of 7.99%)	—	(629,343)	(629,343)
Total	\$ 3,640,180	\$ 874,476	\$ 4,514,656

Credit Facilities

On December 5, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety the Company's Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. The Company has a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides the

Company a one-time right to reduce the amount of the revolving credit commitments, and the Company may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The

Amended Agreement extended the maturity date of the Original Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of the Company's communities. In addition, the Amended Agreement permits the Company to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit facility will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and the Company's consolidated fixed charge coverage ratio.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of December 31, 2018, no borrowings were outstanding on the revolving credit facility, \$40.7 million of letters of credit were outstanding, and the revolving credit facility had \$179.4 million of availability. The Company also had a separate unsecured letter of credit facility of up to \$66.2 million as of December 31, 2018. Letters of credit totaling \$66.1 million had been issued under the separate facility as of that date.

2018 Financings

In April 2018, the Company obtained \$247.6 million of debt secured by the non-recourse first mortgages on 11 communities. Sixty percent of the principal amount bears interest at a fixed rate of 4.55%, and the remaining forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 189 basis points. The debt matures in May 2028. The \$247.6 million of proceeds from the financing were primarily utilized to fund the acquisition of five communities from HCP and to repay \$43.0 million of outstanding mortgage debt scheduled to mature in May 2018. See Note 4 to the consolidated financial statements for more information regarding the acquisitions of communities from HCP.

During the fourth quarter of 2018, the Company obtained \$327.0 million of debt secured by the non-recourse first mortgages on 28 communities. Sixty-five percent of the principal amount bears interest at a fixed rate of 5.08%, and the remaining thirty-five percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 216 basis points. The debt matures in December 2028. The \$327.0 million of proceeds from the financing were utilized to repay \$60.4 million of outstanding mortgage debt scheduled to mature on January 1, 2019.

During the fourth quarter of 2018, the Company repaid \$307.4 million of outstanding principal balance on eleven existing loan portfolios. The Company repaid \$171.4 million to facilitate the sale of communities classified as assets held for sale and the remaining repayments were primarily to facilitate the release of communities from their existing loan portfolios so that they could be added to the collateral pool for the Company's credit facility which was refinanced in December 2018. During the year ended December 31, 2018, the Company recorded \$11.7 million of debt modification and extinguishment costs on the consolidated statement of operations for that period, primarily related to third party fees directly related to debt modifications.

2017 Financings

In June 2017, the Company obtained a \$54.7 million non-recourse addition and borrow-up loan, secured by first mortgages on seven communities. The loan bears interest at a fixed rate of 4.69% and matures on March 1, 2022.

In July 2017, the Company completed the refinancing of two existing loan portfolios secured by the non-recourse first mortgages on 22 communities. The \$221.3 million of proceeds from the refinancing were primarily utilized to repay \$188.1 million and \$13.6 million of mortgage debt maturing in April 2018 and January 2021, respectively. The mortgage facility has a 10 year term, and 70% of the principal amount bears interest at a fixed rate of 4.81% and the remaining 30% of the principal amount bears interest at a variable rate of 30-day LIBOR plus a margin of 244 basis points.

In August 2017, the Company obtained \$975.0 million of debt secured by the non-recourse first mortgages on 51 communities. Sixty percent of the principal amount bears interest at a fixed rate, with one half of such amount bearing interest at 4.43% and maturing in 2024 and the other one half bearing interest at 4.47% and maturing in 2027. Forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 241.5 basis points and matures in 2027. The \$975.0 million of proceeds from the refinancing were primarily utilized to repay \$389.9 million and \$228.9 million of outstanding mortgage debt scheduled to mature in August 2018 and May 2023, respectively.

During the year ended December 31, 2017, the Company recorded \$12.4 million of debt modification and extinguishment costs on the consolidated statement of operations for that period, primarily related to third party fees directly related to debt modifications.

During 2017, the Company repaid \$78.9 million of outstanding principal balance on four existing loan portfolios secured by the non-recourse first mortgages on 13 communities and the Nurse on Call business.

Convertible Debt

In June 2011, the Company completed a registered offering of \$316.3 million aggregate principal amount of 2.75% convertible senior notes due June 15, 2018 (the "Notes"). The Company repaid \$316.3 million in cash to settle the Notes at their maturity on June 15, 2018.

Financial Covenants

Certain of the Company's debt documents contain restrictions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and debt service ratios, and requiring the Company not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. In addition, the Company's debt documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable debt documents. Many of the Company's debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders or lessors). Furthermore, the Company's debt is secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of December 31, 2018, the Company is in compliance with the financial covenants of its outstanding debt agreements.

10. Accrued Expenses

Accrued expenses consist of the following:

<i>(in thousands)</i>	As of December 31,	
	2018	2017
Salaries and wages	\$ 88,425	\$ 91,784
Insurance reserves	61,150	63,309
Vacation	37,109	40,281
Real estate taxes	25,302	30,743
Interest	15,458	13,745
Accrued utilities	8,883	10,807
Taxes payable	2,782	2,636
Lease payable	1,532	11,942
Other	57,586	64,719
Total	\$ 298,227	\$ 329,966

11. Commitments and Contingencies

Facility Operating Leases

As of December 31, 2018, the Company operated 343 communities under long-term leases (252 operating leases and 91 capital and financing leases). The substantial majority of the Company's lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. The Company typically guarantees the performance and lease payment obligations of its subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of such leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in leased property revenue or the consumer price index. The Company is responsible for all operating costs, including repairs, property taxes and insurance. The initial lease terms primarily vary from 10 to 20 years and generally include renewal options ranging from 5 to 20 years. The remaining initial lease terms vary from less than 1 year to 14 years and generally provide for renewal or extension options and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. In addition, the Company's lease documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable lease documents. Many of the Company's debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors). Certain leases contain cure provisions, which generally allow the Company to post an additional lease security deposit if the required covenant is not met. Furthermore, the Company's leases are secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of December 31, 2018, the Company is in compliance with the financial covenants of its long-term leases.

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

<i>(in thousands)</i>	For the Years Ended December 31,		
	2018	2017	2016
Cash basis payment - operating leases	\$ 324,870	\$ 365,077	\$ 384,104
Straight-line lease (income) expense	(17,218)	(20,990)	(6,097)
Amortization of deferred gain	(4,358)	(4,366)	(4,372)
Facility lease expense	<u>\$ 303,294</u>	<u>\$ 339,721</u>	<u>\$ 373,635</u>

The aggregate amounts of future minimum operating lease payments, including community and office leases, as of December 31, 2018 are as follows (in thousands):

Year Ending December 31,	Operating Leases
2019	\$ 310,340
2020	307,493
2021	290,661
2022	291,113
2023	285,723
Thereafter	786,647
Total	<u>\$ 2,271,977</u>

Other

The Company has employment or letter agreements with certain officers of the Company and has adopted policies to which certain officers of the Company are eligible to participate, which grant these employees the right to receive a portion or multiple of their base salary, pro-rata bonus, bonus and/or continuation of certain benefits, for a defined period of time, in the event of certain terminations of the officers' employment, as described in those agreements and policies.

12. Self-Insurance

The Company obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policy. Losses related to deductible amounts are accrued based on the Company's estimate of expected losses plus incurred but not reported claims.

As of December 31, 2018 and 2017, the Company accrued reserves of \$155.6 million and \$165.0 million, respectively, for these programs of which \$94.5 million and \$101.7 million is classified as long-term liabilities as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Company accrued \$13.1 million and \$17.5 million, respectively, of estimated amounts receivable from the insurance companies under these insurance programs. During the years ended December 31, 2018, 2017 and 2016, the Company recorded a \$14.6 million, \$9.9 million and \$35.4 million decrease in insurance expense from changes in estimates, respectively, due to general liability and professional liability and workers compensation claims experience.

The Company has secured self-insured retention risk under workers' compensation programs with cash deposits of \$14.7 million and \$12.7 million as of December 31, 2018 and 2017, respectively. Letters of credit securing the programs aggregated to \$71.8 million as of December 31, 2018 and 2017. In addition, the Company also had deposits of \$13.7 million and \$33.9 million as of December 31, 2018 and 2017, respectively, to fund claims paid under a high deductible, collateralized insurance policy.

13. Retirement Plans

The Company maintains a 401(k) Retirement Savings Plan for all employees that meet minimum employment criteria. The plan provides that the participants may defer eligible compensation subject to certain Internal Revenue Code maximum amounts. The Company makes matching contributions in amounts equal to 25.0% of the employee's contribution to the plan, for contributions up to a maximum of 4.0% of compensation. An additional matching contribution of 12.5%, subject to the same limit on compensation, may be made at the discretion of the Company based upon the Company's performance. For the years ended December 31, 2018, 2017 and 2016, the Company's expense to the plan was \$8.3 million, \$10.1 million and \$8.2 million, respectively.

14. Stock-Based Compensation

The following table sets forth information about the Company's restricted stock awards (excluding restricted stock units):

<i>(share amounts in thousands, except value per share)</i>	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding on January 1, 2016	3,454	\$ 28.80
Granted	3,141	14.56
Vested	(1,242)	26.79
Cancelled/forfeited	(745)	24.75
Outstanding on December 31, 2016	4,608	20.29
Granted	2,569	14.65
Vested	(1,276)	22.20
Cancelled/forfeited	(1,131)	18.95
Outstanding on December 31, 2017	4,770	17.13
Granted	3,880	9.39
Vested	(1,579)	19.12
Cancelled/forfeited	(1,315)	13.19
Outstanding on December 31, 2018	5,756	11.78

As of December 31, 2018, there was \$41.3 million of total unrecognized compensation cost related to outstanding, unvested share-based compensation awards. That cost is expected to be recognized over a weighted-average period of 2.6 years and is based on grant date fair value.

During 2018, grants of restricted shares under the Company's 2014 Omnibus Incentive Plan were as follows:

<i>(share amounts in thousands, except value per share)</i>	Shares Granted	Value Per Share	Total Value
Three months ended March 31, 2018	3,387	\$ 9.10	\$ 30,823
Three months ended June 30, 2018	169	\$ 7.19	\$ 1,214
Three months ended September 30, 2018	263	\$ 8.99	\$ 2,361
Three months ended December 31, 2018	61	\$ 9.25	\$ 569

The Company has an employee stock purchase plan for all eligible employees. 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, not to exceed 200 shares, 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 that date. The Company reserved 1,800,000 shares of common stock for issuance under the plan. The impact on the Company's consolidated financial statements is not material.

15. Share Repurchase Program

On November 1, 2016, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million in the aggregate of the Company's common stock. The share repurchase program is intended to be implemented through purchases made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of these methods, in accordance with applicable insider trading and other securities laws and regulations.

The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program will be held as treasury shares.

During the year ended December 31, 2018, the Company repurchased 1,280,802 shares at a weighted average price paid per share of \$6.64, for an aggregate purchase price of approximately \$8.5 million. No shares were purchased pursuant to this authorization during the year ended December 31, 2017. During the year ended December 31, 2016, the Company repurchased 750,000 shares at a weighted average price paid per share of \$12.83, for an aggregate purchase price of approximately \$9.6 million. As of December 31, 2018, approximately \$81.9 million remains available under the share repurchase program.

16. Income Taxes

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

<i>(in thousands)</i>	For the Years Ended December 31,		
	2018	2017	2016
Federal:			
Current	\$ (113)	\$ 2,200	\$ (12)
Deferred	52,367	15,310	(3,248)
Total Federal	<u>52,254</u>	<u>17,510</u>	<u>(3,260)</u>
State:			
Current	(2,798)	(995)	(2,118)
Deferred (included in Federal above)	—	—	—
Total State	<u>(2,798)</u>	<u>(995)</u>	<u>(2,118)</u>
Total	<u>\$ 49,456</u>	<u>\$ 16,515</u>	<u>\$ (5,378)</u>

A reconciliation of the benefit (provision) for income taxes to the amount computed at the U.S. Federal statutory rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016, respectively, is as follows:

<i>(in thousands)</i>	For the Years Ended December 31,		
	2018	2017	2016
Tax benefit at U.S. statutory rate	\$ 121,320	\$ 205,777	\$ 139,657
State taxes, net of federal income tax	21,576	24,891	11,788
Valuation allowance	5,713	(246,037)	(142,862)
Tax credits	688	1,908	6,163
Goodwill impairment	(88,265)	(78,515)	(10,789)
Impact of the Tax Act	(6,042)	114,716	—
Stock compensation	(4,717)	(4,093)	(5,716)
Meals and entertainment	(493)	(726)	(868)
Other, net	(324)	(1,406)	(2,751)
Total	<u>\$ 49,456</u>	<u>\$ 16,515</u>	<u>\$ (5,378)</u>

Significant components of the Company's deferred tax assets and liabilities are as follows:

<i>(in thousands)</i>	As of December 31,	
	2018	2017
Deferred income tax assets:		
Capital and financing lease obligations	\$ 165,703	\$ 264,255
Operating loss carryforwards	298,255	288,469
Deferred lease liability	63,263	52,869
Accrued expenses	61,309	66,123
Tax credits	50,462	49,556
Capital loss carryforward	41,413	—
Intangible assets	10,133	14,493
Other	2,872	7,190
Total gross deferred income tax asset	693,410	742,955
Valuation allowance	(336,417)	(336,087)
Net deferred income tax assets	356,993	406,868
Deferred income tax liabilities:		
Property, plant and equipment	(334,145)	(477,512)
Investment in unconsolidated ventures	(41,219)	—
Total gross deferred income tax liability	(375,364)	(477,512)
Net deferred tax liability	\$ (18,371)	\$ (70,644)

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act reformed the United States corporate income tax code, including a reduction to the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminated alternative minimum tax (AMT) and the 20-year carryforward limitation for net operating losses incurred after December 31, 2017, and imposes a limit on the usage of net operating losses incurred after such date equal to 80% of taxable income in any given year. The 80% usage limit will not have an economic impact on the Company until its current net operating losses are either utilized or expired. In addition, the Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company plans to elect the real property trade or business exception with the 2018 tax return. As such, the Company will be required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change reduced the Company's tax depreciation by approximately \$57.9 million for the year ended December 31, 2018, and will have a similar impact on future tax depreciation deductions and did impact the Company's valuation allowance. For the year ended December 31, 2017, reasonable estimates for the Company's state and local provision were made based on the Company's analysis of the Tax Act. On the basis of additional guidance issued by various state taxing authorities, these provisional amounts were adjusted in the year ended December 31, 2018. The Company recognized an additional \$6.0 million of valuation allowance against the Company's state net operating losses with a corresponding increase of \$6.0 million to the income tax provision. This was primarily due to expiring state net operating losses resulting from certain state taxing authorities not adopting the federal standard of unlimited net operating loss carryovers.

A summary of the effect of the Tax Act is as follows:

<i>(in thousands)</i>	For the Year Ended December 31, 2017
Rate change - decrease in net deferred tax assets	\$ 108,070
Rate change - decrease in valuation allowance	(172,235)
Impact on net operating loss usage	(50,551)
Reduction of deferred tax asset - AMT credits	2,361
Total impact of the Tax Act on the Company's deferred taxes position	(112,355)
Realization of AMT credits	(2,361)
Net impact of the Tax Act on the Company's effect tax rate	\$ (114,716)

As of December 31, 2018 and 2017, the Company had federal net operating loss carryforwards of approximately \$1.2 billion each of which are available to offset future taxable income through 2037. Additionally, as of December 31, 2018, the Company had federal net operating loss carryforwards generated after 2017 of \$33.5 million which have an indefinite life, but with usage limited to 80% of taxable income in any given year. The Company had capital loss carryforwards of \$165.0 million as of December 31, 2018, which is available to offset future capital gains through 2023. The Company determined that a valuation allowance was required after consideration of the Company's estimated future reversal of existing timing differences as of December 31, 2018 and 2017. For the year ended December 31, 2018, the Company recorded a provision of approximately \$0.3 million (including the impact from the Tax Act) to reflect the required valuation allowance of \$336.4 million as of December 31, 2018.

A summary of the change in the Company's valuation allowance is as follows:

<i>(in thousands)</i>	For the Years Ended December 31,	
	2018	2017
Increase (decrease) in valuation allowance before consideration of the Tax Act	\$ (5,713)	\$ 246,037
Increase (decrease) due to the adoption of ASU 2016-09	—	48,531
Total increase (decrease) in valuation allowance	<u>(5,713)</u>	<u>294,568</u>
Tax Act rate change - decrease in valuation allowance	—	(172,235)
Impact on net operating loss usage	6,042	(50,551)
Total increase (decrease) in valuation allowance due to Tax Act	<u>6,042</u>	<u>(222,786)</u>
Total increase (decrease) in valuation allowance	<u>\$ 329</u>	<u>\$ 71,782</u>

The Company has recorded valuation allowances of \$245.3 million and \$286.6 million as of December 31, 2018 and 2017, respectively, against its federal and state net operating losses, as the Company anticipates these losses will not be utilized prior to expiration. The Company has recorded a valuation allowance against its capital loss carryforward of \$41.4 million as of December 31, 2018, as the Company anticipates these losses will not be utilized prior to expiration. The Company also recorded a valuation allowance against federal and state credits of \$49.8 million and \$49.5 million as of December 31, 2018 and 2017, respectively. For the year ended December 31, 2017, the Company determined that a valuation allowance was required due to the loss before income taxes, combined with the Company's estimated reversal of future timing differences as of December 31, 2017. As a result, the Company recorded an increase to the valuation allowance of \$71.8 million for the year ended December 31, 2017. As a part of the change in 2017, the Company increased its valuation allowance by \$48.5 million upon the adoption of ASU 2016-09. The \$48.5 million offsets the increase to the Company's net operating loss carryforward position previously reflected in an additional paid-in capital pool, and accordingly, did not impact the 2017 income tax position.

As of December 31, 2018 and 2017, the Company had gross tax affected unrecognized tax benefits of \$18.5 million each of which, if recognized, would result in an income tax benefit recorded in the consolidated statement of operations. Interest and penalties related to these tax positions are classified as tax expense in the Company's consolidated financial statements. Total interest and penalties reserved is \$0.1 million as of December 31, 2018 and 2017. As of December 31, 2018, the Company's tax returns for years 2014 through 2017 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination. The Company does not expect that unrecognized tax benefits for tax positions taken with respect to 2018 and prior years will significantly change in 2019.

A reconciliation of the unrecognized tax benefits is as follows:

<i>(in thousands)</i>	For the Years Ended December 31,	
	2018	2017
Balance at January 1,	\$ 18,461	\$ 29,160
Additions for tax positions related to the current year	80	184
Reductions for the Impact of the Tax Act	—	(10,859)
Reductions for tax positions related to prior years	(34)	(24)
Balance at December 31,	<u>\$ 18,507</u>	<u>\$ 18,461</u>

17. Supplemental Disclosure of Cash Flow Information*(in thousands)***Supplemental Disclosure of Cash Flow Information:**

Interest paid

Income taxes paid, net of refunds

Additions to property, plant and equipment and leasehold intangibles, net:

Property, plant and equipment and leasehold intangibles, net

Trade accounts payable

Net cash paid

Acquisition of assets, net of related payables and cash received:

Property, plant and equipment and leasehold intangibles, net

Other intangible assets, net

Capital and financing lease obligations

Other liabilities

Net cash paid

Proceeds from sale of assets, net:

Prepaid expenses and other assets, net

Assets held for sale

Property, plant and equipment and leasehold intangibles, net

Investments in unconsolidated ventures

Other liabilities

Long-term debt

Capital and financing lease obligations

Refundable entrance fees and deferred revenue

(Gain) loss on sale of assets, net

Loss on facility lease termination and modification, net

Net cash received

Lease termination and modification, net:

Prepaid expenses and other assets, net

Property, plant and equipment and leasehold intangibles, net

Capital and financing lease obligations

Deferred liabilities

Gain on sale of assets, net

Loss on facility lease termination and modification, net

Net cash paid ⁽¹⁾

Formation of the Blackstone Venture:

Prepaid expenses and other assets

Property, plant and equipment and leasehold intangibles, net

Investments in unconsolidated ventures

Capital and financing lease obligations

Deferred liabilities

Other liabilities

Net cash paid

For the Years Ended December 31,

	2018	2017	2016
Interest paid	\$ 260,706	\$ 294,758	\$ 349,535
Income taxes paid, net of refunds	\$ 2,058	\$ 1,038	\$ 2,047
Additions to property, plant and equipment and leasehold intangibles, net:			
Property, plant and equipment and leasehold intangibles, net	\$ 220,810	\$ 221,476	\$ 300,113
Trade accounts payable	4,663	(7,589)	33,534
Net cash paid	\$ 225,473	\$ 213,887	\$ 333,647
Acquisition of assets, net of related payables and cash received:			
Property, plant and equipment and leasehold intangibles, net	\$ 237,563	\$ —	\$ 19,457
Other intangible assets, net	(4,345)	5,196	(7,300)
Capital and financing lease obligations	36,120	—	—
Other liabilities	2,433	—	—
Net cash paid	\$ 271,771	\$ 5,196	\$ 12,157
Proceeds from sale of assets, net:			
Prepaid expenses and other assets, net	\$ (4,950)	\$ (17,072)	\$ (4,543)
Assets held for sale	(197,111)	(20,952)	(289,452)
Property, plant and equipment and leasehold intangibles, net	(93,098)	(155,723)	—
Investments in unconsolidated ventures	(58,179)	(52,548)	—
Other liabilities	1,139	(1,058)	3,281
Long-term debt	—	8,547	—
Capital and financing lease obligations	93,514	157,963	—
Refundable entrance fees and deferred revenue	8,632	30,771	—
(Gain) loss on sale of assets, net	(249,754)	(19,273)	(7,218)
Loss on facility lease termination and modification, net	—	(1,162)	—
Net cash received	\$ (499,807)	\$ (70,507)	\$ (297,932)
Lease termination and modification, net:			
Prepaid expenses and other assets, net	\$ (2,804)	\$ —	\$ —
Property, plant and equipment and leasehold intangibles, net	(87,464)	—	—
Capital and financing lease obligations	58,099	—	—
Deferred liabilities	70,835	—	—
Gain on sale of assets, net	(5,761)	—	—
Loss on facility lease termination and modification, net	34,283	—	—
Net cash paid ⁽¹⁾	\$ 67,188	\$ —	\$ —
Formation of the Blackstone Venture:			
Prepaid expenses and other assets	\$ —	\$ (8,173)	\$ —
Property, plant and equipment and leasehold intangibles, net	—	(768,897)	—
Investments in unconsolidated ventures	—	66,816	—
Capital and financing lease obligations	—	879,959	—
Deferred liabilities	—	7,504	—
Other liabilities	—	1,998	—
Net cash paid	\$ —	\$ 179,207	\$ —

Supplemental Schedule of Non-Cash Operating, Investing and Financing Activities:

Purchase of treasury stock:

Treasury stock	\$ 4,244	\$ —	\$ —
Accounts payable	(4,244)	—	—
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Assets designated as held for sale:

Prepaid expenses and other assets, net	\$ (517)	\$ 199	\$ (3,195)
Assets held for sale	198,445	(29,544)	278,675
Property, plant and equipment and leasehold intangibles, net	(197,928)	29,345	(262,711)
Goodwill	—	—	(28,568)
Asset impairment	—	—	15,799
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Lease termination and modification, net:

Prepaid expenses and other assets, net	\$ (248)	\$ —	\$ —
Property, plant and equipment and leasehold intangibles, net	(132,733)	(145,645)	—
Capital and financing lease obligations	165,918	147,886	—
Deferred liabilities	(122,304)	7,447	—
Other liabilities	(620)	(9,688)	—
Gain on sale of assets, net	(37,731)	—	—
Loss on facility lease termination and modification, net	127,718	—	—
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) The net cash paid to terminate community leases is presented within the consolidated statement of cash flows based upon the lease classification of the terminated leases. Net cash paid of \$54.6 million for the termination of operating leases is presented within net cash provided by operating activities and net cash paid of \$12.5 million for the termination of capital and financing leases is presented within net cash used in financing activities for the year ended December 31, 2018.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statement of cash flows that sums to the total of the same such amounts shown in the consolidated statement of cash flows.

<i>(in millions)</i>	December 31, 2018	December 31, 2017
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 398,267	\$ 222,647
Restricted cash	27,683	37,189
Long-term restricted cash	24,268	22,710
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	<u>\$ 450,218</u>	<u>\$ 282,546</u>

18. Litigation

The Company has been and is currently involved in litigation and claims, including putative class action claims from time to time, incidental to the conduct of its business which are generally comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. As a result, the Company maintains general liability and professional liability insurance policies in amounts and with coverage and deductibles the Company believes are adequate, based on the nature and risks of its business, historical experience and industry standards. The Company's current policies provide for deductibles for each claim. Accordingly, the Company is, in effect, self-insured for claims that are less than the deductible amounts and for claims or portions of claims that are not covered by such policies.

Similarly, the senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in reviews, audits, investigations, enforcement activities or litigation related to regulatory compliance matters. In addition, as a result of the Company's participation in the Medicare and Medicaid programs, the Company is subject to various governmental reviews, audits and investigations, including but not limited to audits under various government programs, such as the Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), and Unified Program Integrity Contractors (UPIC) programs. The costs to respond to and defend such reviews, audits and investigations may be significant, and an adverse determination could result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, termination of participation in Medicare and Medicaid programs, and/or damage to the Company's business reputation.

19. Disaggregation of Revenue

The Company disaggregates its revenue from contracts with customers by payor source, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. See details on a reportable segment basis in the table below.

	Year Ended December 31, 2018				
	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
<i>(in thousands)</i>					
Private pay	\$ 596,852	\$ 1,923,676	\$ 288,682	\$ 693	\$ 2,809,903
Government reimbursement	3,125	72,175	87,028	359,881	522,209
Other third-party payor programs	—	—	40,698	76,401	117,099
Total resident fee revenue	\$ 599,977	\$ 1,995,851	\$ 416,408	\$ 436,975	\$ 3,449,211

The Company has not further disaggregated management fee revenues and revenue for reimbursed costs incurred on behalf of managed communities as the economic factors affecting the nature, timing, amount, and uncertainty of revenue and cash flows do not significantly vary within each respective revenue category.

Contract Balances

The payment terms and conditions within the Company's revenue-generating contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days.

Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance. Resident fee revenue for standalone or certain healthcare services is generally billed monthly in arrears. Additionally, non-refundable community fees are generally billed and collected in advance or upon move-in of a resident under independent living, assisted living and memory care residency agreements for independent living, assisted living and memory care services. Amounts of revenue that are collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. The Company had total deferred revenue (included within refundable entrance fees and deferred revenue, deferred liabilities, and other liabilities within the consolidated balance sheets) of \$106.4 million and \$112.4 million, including \$50.6 million and \$49.7 million of monthly resident fees billed and received in advance, as of December 31, 2018 and 2017, respectively. For the year ended December 31, 2018, the Company recognized \$82.1 million of revenue that was included in the deferred revenue balance as of January 1, 2018. The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

For the year ended December 31, 2018, the Company recognized \$17.6 million of charges within facility operating expense within the consolidated statement of operations for additions to the allowance for doubtful accounts.

20. Segment Information

The Company has five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

Independent Living. The Company's Independent Living segment includes owned or leased communities that are primarily designed for middle to upper income seniors who desire an upscale residential environment providing the highest quality of service. The majority of the Company's independent living communities consist of both independent and assisted living units in a single community, which allows residents to age-in-place by providing them with a continuum of senior independent and assisted living services.

Assisted Living and Memory Care. The Company's Assisted Living and Memory Care segment includes owned or leased communities that offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. Assisted living and memory care communities include both freestanding, multi-story communities and freestanding, single story communities. The Company also provides memory care services at freestanding memory care communities that are specially designed for residents with Alzheimer's and other dementias.

CCRCs. The Company's CCRCs segment includes large owned or leased communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care and Alzheimer's services.

Health Care Services. The Company's Health Care Services segment includes the home health, hospice and outpatient therapy services, as well as education and wellness programs, provided to residents of many of the Company's communities and to seniors living outside of the Company's communities. The Health Care Services segment does not include the skilled nursing and inpatient healthcare services provided in the Company's skilled nursing units, which are included in the Company's CCRCs segment.

Management Services. The Company's Management Services segment includes communities operated by the Company pursuant to management agreements. In some of the cases, the controlling financial interest in the community is held by third parties and, in other cases, the community is owned in a venture structure in which the Company has an ownership interest. Under the management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of expenses it incurs on behalf of the owners.

The accounting policies of the Company's reportable segments are the same as those described in the summary of significant accounting policies in Note 2.

The following table sets forth selected segment financial and operating data:

	For the Years Ended December 31,		
	2018	2017	2016
<i>(in thousands)</i>			
Revenue:			
Independent Living ⁽¹⁾	\$ 599,977	\$ 654,196	\$ 679,503
Assisted Living and Memory Care ⁽¹⁾	1,995,851	2,210,688	2,419,459
CCRCs ⁽¹⁾	416,408	468,994	592,826
Health Care Services ⁽¹⁾	436,975	446,262	476,833
Management Services ⁽²⁾	1,082,215	966,976	808,359
	<u>\$ 4,531,426</u>	<u>\$ 4,747,116</u>	<u>\$ 4,976,980</u>
Segment Operating Income ⁽³⁾ :			
Independent Living	\$ 240,609	\$ 271,417	\$ 294,530
Assisted Living and Memory Care	628,982	749,058	876,817
CCRCs	92,212	106,162	133,409
Health Care Services	34,080	51,348	64,463
Management Services	71,986	75,845	70,762
	<u>1,067,869</u>	<u>1,253,830</u>	<u>1,439,981</u>
General and administrative (including non-cash stock-based compensation expense)	250,495	255,446	313,409
Transaction costs	8,980	22,573	3,990

Facility lease expense:			
Independent Living	93,496	117,131	120,272
Assisted Living and Memory Care	178,716	185,971	193,670
CCRCs	24,856	29,464	51,727
Health Care Services	—	—	—
Corporate and Management Services	6,226	7,155	7,966
Depreciation and amortization:			
Independent Living	91,899	95,226	94,049
Assisted Living and Memory Care	261,365	290,344	308,639
CCRCs	53,551	44,294	66,431
Health Care Services	3,201	3,723	4,075
Corporate and Management Services	37,439	48,490	47,208
Goodwill and asset impairment:			
Independent Living	2,013	2,968	31,384
Assisted Living and Memory Care	436,892	342,788	132,389
CCRCs	6,669	18,083	46,329
Health Care Services	9,055	14,599	1,596
Corporate and Management Services	35,264	31,344	36,817
Loss on facility lease termination and modification, net	162,001	14,276	11,113
Income (loss) from operations	<u>\$ (594,249)</u>	<u>\$ (270,045)</u>	<u>\$ (31,083)</u>

Total interest expense:			
Independent Living	\$ 58,783	\$ 55,436	\$ 56,827
Assisted Living and Memory Care	174,459	207,861	249,449
CCRCs	26,746	27,665	39,824
Health Care Services	—	892	1,461
Corporate and Management Services	20,281	34,300	38,056
	<u>\$ 280,269</u>	<u>\$ 326,154</u>	<u>\$ 385,617</u>

Total capital expenditures for property, plant and equipment, and leasehold intangibles:

Independent Living	\$ 51,510	\$ 47,309	\$ 59,978
Assisted Living and Memory Care	125,750	119,717	156,732
CCRCs	26,615	24,297	37,800
Health Care Services	902	755	1,576
Corporate and Management Services	16,033	29,398	44,027
	<u>\$ 220,810</u>	<u>\$ 221,476</u>	<u>\$ 300,113</u>

As of December 31,

(in thousands)

	2018	2017
Total assets:		
Independent Living	\$ 1,104,774	\$ 1,266,076
Assisted Living and Memory Care	3,684,170	4,535,114
CCRCs	707,819	667,234
Health Care Services	254,950	257,257
Corporate and Management Services	715,547	949,768

\$ 6,467,260 \$ 7,675,449

- (1) All revenue is earned from external third parties in the United States.
- (2) Management services segment revenue includes reimbursements for which the Company is the primary obligor of costs incurred on behalf of managed communities.
- (3) Segment operating income is defined as segment revenues less segment facility operating expenses (excluding depreciation and amortization) and costs incurred on behalf of managed communities.

21. Quarterly Results of Operations (Unaudited)

The following is a summary of quarterly results of operations for each of the fiscal quarters in 2018 and 2017:

	For the Quarters Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
<i>(in thousands, except per share amounts)</i>				
Revenues	\$ 1,187,234	\$ 1,155,200	\$ 1,120,062	\$ 1,068,930
Goodwill and asset impairment	430,363	16,103	5,500	37,927
Loss on facility lease termination and modification, net	—	146,467	2,337	13,197
Income (loss) from operations	(413,831)	(137,589)	3,626	(46,455)
Gain on sale of assets, net	43,431	23,322	9,833	216,660
Income (loss) before income taxes	(441,649)	(181,055)	(54,903)	99,799
Net income (loss)	(457,234)	(165,509)	(37,140)	131,531
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	(457,188)	(165,488)	(37,121)	131,539
Weighted average basic and diluted income (loss) per share	\$ (2.45)	\$ (0.88)	\$ (0.20)	\$ 0.70

	For the Quarters Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
<i>(in thousands, except per share amounts)</i>				
Revenues	\$ 1,216,766	\$ 1,186,472	\$ 1,177,988	\$ 1,165,890
Goodwill and asset impairment	20,706	1,559	368,551	18,966
Income (loss) from operations	48,126	30,174	(350,970)	2,625
Income (loss) before income taxes	(42,333)	(49,072)	(445,147)	(51,569)
Net income (loss)	(126,361)	(46,337)	(413,929)	15,021
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	(126,304)	(46,287)	(413,885)	15,057
Weighted average basic and diluted income (loss) per share	\$ (0.68)	\$ (0.25)	\$ (2.22)	\$ 0.08

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
December 31, 2018
(In thousands)

Description	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	Charged to other accounts		
Allowance for Doubtful Accounts:					
Year ended December 31, 2016	\$ 26,470	\$ 30,632	\$ 2,680	\$ (32,738)	\$ 27,044
Year ended December 31, 2017	\$ 27,044	\$ 25,370	\$ 555	\$ (29,857)	\$ 23,112
Year ended December 31, 2018	\$ 23,112	\$ 17,597	\$ 7,153	\$ (23,109)	\$ 24,753
Deferred Tax Valuation Allowance:					
Year ended December 31, 2016	\$ 121,602	\$ 142,862 ⁽¹⁾	\$ —	\$ (159)	\$ 264,305
Year ended December 31, 2017	\$ 264,305	\$ 71,782 ⁽²⁾	\$ —	\$ —	\$ 336,087
Year ended December 31, 2018	\$ 336,087	\$ 330 ⁽³⁾	\$ —	\$ —	\$ 336,417

- (1) Adjustment to valuation allowance for federal and state net operating losses and federal credits of \$128,931 and \$13,931, respectively.
- (2) Adjustment to valuation allowance for federal and state net operating losses of \$294,568 and a reduction of \$222,786 resulting from the Tax Cuts and Jobs Act.
- (3) Reduction of valuation allowance for federal and state net operating losses and federal credits of \$5,919 off-set by additional valuation allowance for federal credits of \$207 and adjustments resulting from the Tax Cuts and Jobs Act of \$6,042.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of December 31, 2018, our disclosure controls and procedures were effective.

Management's Assessment of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Based on the Company's evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K and incorporated herein by reference.

Internal Control Over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

To the extent not set forth herein, the information required by this item is incorporated by reference from the discussions under the headings "Election of Directors," "Corporate Governance," "Executive Officers of the Company" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders or in an amendment to this Annual Report on Form 10-K, to be filed with the SEC within 120 days of December 31, 2018.

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all employees, directors and officers, including our principal executive officer, our principal financial officer, our principal accounting officer or controller, or persons performing similar functions, as well as a Code of Ethics for Chief Executive and Senior Financial Officers, which applies to our President and Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Treasurer, both of which are available on our website at www.brookdale.com/investor. Any amendment to, or waiver from, a provision of such codes of ethics granted to a principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions, or to any executive officer or director, will be posted on our website.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference from the discussions under the headings "Director Compensation" and "Executive Compensation" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders or in an amendment to this Annual Report on Form 10-K, to be filed with the SEC within 120 days of December 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

To the extent not set forth herein, the information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading "Security Ownership of Certain Beneficial Owners and Management" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders or in an amendment to this Annual Report on Form 10-K, to be filed with the SEC within 120 days of December 31, 2018.

The following table provides certain information as of December 31, 2018 with respect to our equity compensation plans (after giving effect to shares issued and/or vesting on such date):

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) ⁽¹⁾	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽²⁾	—	—	8,871,506
Equity compensation plans not approved by security holders ⁽³⁾	—	—	35,936
Total	—	—	8,907,442

(1) As of December 31, 2018, an aggregate of 5,756,435 shares of unvested restricted stock were outstanding under our 2014 Omnibus Incentive Plan, and an aggregate of 6,850 vested restricted stock units were outstanding under our Omnibus Stock Incentive Plan. Such shares of restricted stock and restricted stock units are not reflected in the table above. Our 2014 Omnibus Incentive Plan allows awards to be made in the form of stock options, stock appreciation rights, restricted shares, restricted stock units, unrestricted shares, performance awards and other stock-based awards.

(2) The number of shares remaining available for future issuance under equity compensation plans approved by security holders consists of 8,237,094 shares remaining available for future issuance under our 2014 Omnibus Incentive Plan and 634,412 shares

remaining available for future issuance under our Associate Stock Purchase Plan.

- (3) Represents shares remaining available for future issuance under our Director Stock Purchase Plan. Under the existing compensation program for the members of our Board of Directors, each non-employee director has the opportunity to elect to receive either immediately vested shares or restricted stock units in lieu of up to 50% of his or her quarterly cash compensation. Any immediately vested shares that are elected to be received will be issued pursuant to the Director Stock Purchase Plan. Under the director compensation program, all cash amounts are payable quarterly in arrears, with payments to be made on April 1, July 1, October 1 and January 1. Any immediately vested shares that a director elects to receive under the Director Stock Purchase Plan will be issued at the same time that cash payments are made. The number of shares to be issued will be based on the closing price of our common stock on the date of issuance (i.e., April 1, July 1, October 1 and January 1), or if such date is not a trading date, on the previous trading day's closing price. Fractional amounts will be paid in cash. The Board of Directors initially reserved 100,000 shares of our common stock for issuance under the Director Stock Purchase Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference from the discussions under the headings "Certain Relationships and Related Transactions" and "Director Independence" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders or in an amendment to this Annual Report on Form 10-K, to be filed with the SEC within 120 days of December 31, 2018.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference from the discussion under the heading "Ratification of Appointment of Independent Registered Public Accounting Firm for 2019" in our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders or in an amendment to this Annual Report on Form 10-K, to be filed with the SEC within 120 days of December 31, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

- 1) [Our Audited Consolidated Financial Statements](#)
[Report of the Independent Registered Public Accounting Firm](#)
[Report of the Independent Registered Public Accounting Firm](#)
[Consolidated Balance Sheets as of December 31, 2018 and 2017](#)
[Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016](#)
[Consolidated Statements of Equity for the Years Ended December 31, 2018, 2017 and 2016](#)
[Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016](#)
[Notes to Consolidated Financial Statements](#)
[Schedule II – Valuation and Qualifying Accounts](#)

- 2) Exhibits:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Brookdale Senior Living Inc. (the "Company"), as amended.
3.2	Amended and Restated Bylaws of the Company dated October 4, 2018 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 5, 2018 (File No. 001-32641)).
4.1	Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) filed on November 7, 2005 (File No. 333-127372)).
10.1.1	Amended and Restated Master Lease and Security Agreement dated as of November 1, 2017, by and between certain of the Company's affiliates named therein as lessees and HCP, Inc. and certain of its affiliates named therein as lessors (incorporated by reference to Exhibit 10.1.1 to the Company's Annual Report on Form 10-K filed on February 22, 2018 (File No. 001-32641)).†
10.1.2	First Amendment to Amended and Restated Master Lease and Security Agreement dated as of January 10, 2018, by and between certain of the Company's affiliates named therein as lessees and HCP, Inc. and certain of its affiliates named therein as lessors (incorporated by reference to Exhibit 10.1.2 to the Company's Annual Report on Form 10-K filed on February 22, 2018 (File No. 001-32641)).
10.2.1	Master Lease and Security Agreement dated as of April 26, 2018 by and between certain of the Company's affiliates named therein as lessees and certain of the affiliates of Ventas, Inc. named therein as lessors (the "Master Lease") (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2018 (File No. 001-32641)).†
10.2.2	Amendment No. 1 effective September 1, 2018 to Master Lease by and between certain of the Company's affiliates named therein as lessees and certain of the affiliates of Ventas, Inc. named therein as lessors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2018 (File No. 001-32641)).†
10.2.3	Guaranty of Master Lease dated as of April 26, 2018 by and between the Company and certain of its affiliates named

[therein and Ventas, Inc. and certain of its affiliates named therein \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2018 \(File No. 001-32641\)\).†](#)

10.3 [Fifth Amended and Restated Credit Agreement dated as of December 5, 2018, among certain subsidiaries of the Company, Capital One, National Association, as administrative agent, lender and swingline lender, and the other lenders from time to time parties thereto \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 11, 2018 \(File No. 001-32641\)\).](#)

- 10.4 [Master Credit Facility Agreement \(Senior Housing\) dated as of August 31, 2017, by and between Jones Lang LaSalle Multifamily, LLC and the Company's subsidiaries named as borrowers therein \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 7, 2017 \(File No. 001-32641\)\)](#);
- 10.5 [Employment Agreement dated as of March 1, 2018 by and between the Company and Lucinda M. Baier \(incorporated by reference to Exhibit 10.49 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 \(File No. 001-32641\)\)](#).*
- 10.6 [Offer Letter Agreement dated as of August 8, 2018 by and between the Company and Steven E. Swain \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2018 \(File No. 001-32641\)\)](#).*
- 10.7 [Amended and Restated Brookdale Senior Living Inc. 2014 Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 28, 2017 \(File No. 001-32641\)\)\(the "Omnibus Incentive Plan"\)](#).*
- 10.8 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Time-Vesting Form for Executive Committee Members\) \(incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on February 25, 2015 \(File No. 001-32641\)\)](#).*
- 10.9 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Time-Vesting Form for Executive Vice Presidents\) \(incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on February 25, 2015 \(File No. 001-32641\)\)](#).*
- 10.10 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Performance-Vesting Form for Executive Committee Members\) \(incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K filed on February 25, 2015 \(File No. 001-32641\)\)](#).*
- 10.11 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Performance-Vesting Form for Executive Vice Presidents\) \(incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on February 25, 2015 \(File No. 001-32641\)\)](#).*
- 10.12 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Time-Vesting Form for Executive Committee Members\) \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2016 \(File No. 001-32641\)\)](#).*
- 10.13 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Time-Vesting Form for Executive Vice Presidents\) \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2016 \(File No. 001-32641\)\)](#).*
- 10.14 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Performance-Vesting Form for Executive Committee Members\) \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2016 \(File No. 001-32641\)\)](#).*
- 10.15 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Performance-Vesting Form for Executive Vice Presidents\) \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2016 \(File No. 001-32641\)\)](#).*
- 10.16 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2017 Time-Vesting Form for Executive Committee Members\) \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017 \(File No. 001-32641\)\)](#).*
- 10.17 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2017 Time-Vesting Form for Executive Vice Presidents\) \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017 \(File No. 001-32641\)\)](#).*

- 10.18 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2017 Performance-Vesting Form for Executive Committee Members\)](#) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017 (File No. 001-32641)).*
- 10.19 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2017 Performance-Vesting Form for Executive Vice Presidents\)](#) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017 (File No. 001-32641)).*
- 10.20 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2018 Time-Vesting Form\)](#) (incorporated by reference to Exhibit 10.47 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 (File No. 001-32641)).*

- 10.21 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(2018 Cliff-Vesting Form\) \(incorporated by reference to Exhibit 10.48 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 \(File No. 001-32641\)\).*](#)
- 10.22 [Restricted Share Agreement under the Omnibus Incentive Plan dated as of March 5, 2018 by and between the Company and Lucinda M. Baier \(Time-Vesting\) \(incorporated by reference to Exhibit 10.50 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 \(File No. 001-32641\)\).*](#)
- 10.23 [Restricted Share Agreement under the Omnibus Incentive Plan dated as of March 5, 2018 by and between the Company and Lucinda M. Baier \(Performance-Vesting\) \(incorporated by reference to Exhibit 10.51 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 \(File No. 001-32641\)\).*](#)
- 10.24 [Restricted Share Agreement under the Omnibus Incentive Plan dated as of September 10, 2018 by and between the Company and Steven E. Swain \(Performance Vesting\) \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2018 \(File No. 001-32641\)\).*](#)
- 10.25 [Form of Restricted Share Agreement under the Omnibus Incentive Plan \(Time-Vesting Form for New Directors\) \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2015 \(File No. 001-32641\)\).*](#)
- 10.26 [Form of Outside Director Restricted Stock Unit Agreement under the Brookdale Senior Living Inc. Omnibus Stock Incentive Plan effective June 23, 2009, as amended \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 9, 2012 \(File No. 001-32641\)\).*](#)
- 10.27 [Form of Outside Director Restricted Stock Unit Agreement under the Omnibus Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 9, 2016 \(File No. 001-32641\)\).*](#)
- 10.28.1 [Brookdale Senior Living Inc. Associate Stock Purchase Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 11, 2008 \(File No. 001-32641\)\) \(the "Associate Stock Purchase Plan"\).*](#)
- 10.28.2 [First Amendment to Associate Stock Purchase Plan, effective as of December 12, 2013 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 18, 2013 \(File No. 001-32641\)\).*](#)
- 10.29.1 [Form of Severance Letter and Brookdale Senior Living Inc. Severance Pay Policy, Tier I \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2010 \(File No. 001-32641\)\).*](#)
- 10.29.2 [Amendment No. 1 to Severance Pay Policy, Tier I, adopted by the Company on April 23, 2015 \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 27, 2015 \(File No. 001-32641\)\).*](#)
- 10.29.3 [Amendment No. 2 to Severance Pay Policy, Tier I, adopted by the Company on August 3, 2015 \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2015 \(File No. 001-32641\)\).*](#)
- 10.29.4 [Amendment No. 3 to Severance Pay Policy, Tier I, adopted by the Company on January 19, 2017 \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 10, 2017 \(File No. 001-32641\)\).*](#)
- 10.30 [Amended and Restated Tier I Severance Pay Policy dated April 15, 2018 \(incorporated by reference to Exhibit 10.52 to the Company's Amendment No. 1 to Annual Report on Form 10-K filed on April 24, 2018 \(File No. 001-32641\)\).*](#)
- 10.31 [Form of Retention Bonus Award Letter dated March 1, 2018 \(incorporated by reference to Exhibit 10.10 to the](#)

- [Company's Quarterly Report on Form 10-Q filed on May 8, 2018 \(File No. 001-32641\)](#).*
- 10.32 [Form of Indemnification Agreement for Directors and Officers \(incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on February 28, 2011 \(File No. 001-32641\)\)](#).*
- 10.33 [Summary of Brookdale Senior Living Inc. Director Stock Purchase Plan \(incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on June 30, 2009 \(File No. 333-160354\)\)](#).*
- 10.34.1 [Employment Agreement, dated as of February 11, 2013, by and between the Company and T. Andrew Smith \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 12, 2013 \(File No. 001-32641\)\)](#).*
- 10.34.2 [Amendment No. 1 to Employment Agreement dated as of April 23, 2015 by and between the Company and T. Andrew Smith \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 27, 2015 \(File No. 001-32641\)\)](#).*

- 10.35 [Offer Letter Agreement dated as of March 26, 2018 by and between the Company and Teresa Sparks \(incorporated by reference to Exhibit 10.53 to the Company's Amendment No. 1 to Annual Report on Form 10-K/A filed on April 24, 2018 \(File No. 001-32641\)\).*](#)
- 10.36 [Restricted Share Agreement under the Omnibus Incentive Plan, dated as of January 5, 2018, by and between the Company and Daniel A. Decker \(Performance-Vesting\) \(incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K filed on February 22, 2018 \(File No. 001-32641\)\).*](#)
- 21 [Subsidiaries of the Registrant.](#)
- 23 [Consent of Ernst & Young LLP.](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Management Contract or Compensatory Plan

† Portions of this exhibit have been omitted pursuant to a request for confidential treatment, which has been granted by the SEC.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROOKDALE SENIOR LIVING INC.

By: /s/ Lucinda M. Baier
 Name: Lucinda M. Baier
 Title: President and Chief Executive Officer
 Date: February 14, 2019

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

Signature	Title	Date
<u>/s/ Lee S. Wielansky</u> Lee S. Wielansky	Non-Executive Chairman of the Board	February 14, 2019
<u>/s/ Lucinda M. Baier</u> Lucinda M. Baier	President, Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2019
<u>/s/ Steven E. Swain</u> Steven E. Swain	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 14, 2019
<u>/s/ Dawn L. Kussow</u> Dawn L. Kussow	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 14, 2019
<u>/s/ Marcus E. Bromley</u> Marcus E. Bromley	Director	February 14, 2019
<u>/s/ Frank M. Bumstead</u> Frank M. Bumstead	Director	February 14, 2019
<u>/s/ Jackie M. Clegg</u> Jackie M. Clegg	Director	February 14, 2019
<u>/s/ Rita Johnson-Mills</u> Rita Johnson-Mills	Director	February 14, 2019
<u>/s/ James R. Seward</u> James R. Seward	Director	February 14, 2019
<u>/s/ Denise W. Warren</u> Denise W. Warren	Director	February 14, 2019

BROOKDALE CARRIAGE CLUB PROVIDENCE

Balance Sheet

As of April 30, 2019

	<u>2019</u>
Cash - restricted	604,529
Accounts receivable, net	439,085
Other current assets	252,490
Total current assets	<u>1,296,104</u>
Land	10,890,000
Buildings and improvements	87,646,982
Furniture and equipment	11,839,693
Construction in Progress	178,870
Gross PPE	110,555,545
Accumulated depreciation	<u>(37,956,377)</u>
Net PPE	<u>72,599,168</u>
Restricted Cash--LT	4,516,620
Total Assets	<u><u>78,411,893</u></u>
Current portion of long-term debt	1,710,291
Accounts payable	267,627
Accrued expenses	375,512
Tenant deposits	176,314
Other current liabilities	468,454
Total current liabilities	<u>2,998,197</u>
Long-term debt	92,674,654
Total Liabilities	<u>95,672,852</u>
Total Equity	(17,260,959)
Liabs+Equity	<u><u>78,411,893</u></u>

BROOKDALE CARRIAGE CLUB PROVIDENCE

Statement of Cash Flows

As of April 30, 2019

	<u>2019</u>
Net income	1,113,061
Adjustments to reconcile net income to operating cash:	
Depreciation	1,276,040
Amortization - financing costs	19,181
Changes in operating assets	
Escrow Deposit	-
Accounts receivable	35,795
Other assets	(2,609)
Accounts payable	(94,819)
Accrued expenses	(357,468)
Tenant deposits and other restricted liabilities	25,921
Other liabilities	(4,188)
Net cash provided by operating activities	<u>2,010,915</u>
Cash flows from investing activities	
(Deposit to) withdrawals from operating reserve fund	(24,621)
Purchase of property and equipment	(694,744)
Net cash used in investing activities	<u>(719,365)</u>
Cash flows from financing activities	
Proceeds from debt	-
Payment of long-term debt	(587,775)
Member distributions, net	(591,827)
Net cash used in financing activities	<u>(1,179,603)</u>
Increase (decrease) in cash	111,948
Cash, beginning of year	<u>492,581</u>
Cash, ending of year	<u><u>604,529</u></u>

BROOKDALE CARRIAGE CLUB PROVIDENCE

Income Statement

As of April 30, 2019

	2019
REVENUES	
Independent living	\$ 4,157,381
Second Party Rents:	178,399
Assisted living	1,437,057
Memory Enhancement	843,764
Nursing care	1,015,318
Other Incomes	676,781
Total Operating Revenues	<u>\$ 8,308,700</u>
EXPENSES	
Ancillary Expenses	\$ 449,545
Administration & General	534,008
Nursing	485,724
Memory Enhancement	209,176
Assisted Living	237,168
Plant Operations/Maintenance	618,036
Utility	217,644
Housekeeping & Laundry	136,286
Resident Services	258,510
Food Service	780,022
Marketing	200,179
General Insurance	109,311
Worker's Compensation	38,876
Depreciation & Amortization	1,295,221
Interest Expense	1,468,129
Property Tax	157,801
Property management	-
Total Operating Expenses	<u>\$ 7,195,639</u>
Net Income	<u><u>\$ 1,113,061</u></u>

BROOKDALE CARRIAGE CLUB PROVIDENCE

Balance Sheet

As of December 31, 2018 and 2017

	2018	2017
Cash - restricted	492,581	613,302
Cash - unrestricted	-	
Accounts receivable, net	474,880	465,132
Other current assets	249,881	328,979
Total current assets	1,217,343	1,407,413
Land	10,890,000	10,890,000
Buildings and improvements	87,298,300	84,485,329
Furniture and equipment	11,492,817	10,374,371
Construction in Progress	179,684	3,271,199
Gross PPE	109,860,801	109,020,899
Accumulated depreciation	(36,680,336)	(32,838,900)
Net PPE	73,180,465	76,181,999
Restricted Cash--LT	4,491,999	4,178,985
Total Assets	78,889,807	81,768,397
Current portion of long-term debt	1,706,324	1,589,548
Accounts payable	362,446	1,629,260
Accrued expenses	732,980	1,101,341
Tenant deposits	150,393	149,243
Other current liabilities	472,642	270,312
Total current liabilities	3,424,784	4,739,704
Long-term debt	93,247,216	93,166,981
Total Liabilities	96,672,000	97,906,685
Total Equity	(17,782,193)	(16,138,288)
Liabs+Equity	78,889,807	81,768,397

BROOKDALE CARRIAGE CLUB PROVIDENCE
Statement of Cash Flows
For the years ending December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net income	2,987,048	4,770,832
Adjustments to reconcile net income to operating cash:		
Depreciation	3,841,130	3,652,518
Amortization - financing costs	57,544	77,322
Changes in operating assets		
Escrow Deposit	-	
Accounts receivable	(9,748)	170,876
Other assets	79,098	(111,574)
Accounts payable	(1,266,814)	1,393,361
Accrued expenses	(368,361)	522,825
Tenant deposits and other restricted liabilities	1,150	5,600
Other liabilities	202,329	(44,835)
Net cash provided by operating activities	5,523,377	10,436,925
Cash flows from investing activities		
(Deposit to) withdrawals from operating reserve fund	(313,015)	(5,012)
Purchase of property and equipment	(839,595)	(4,523,858)
Net cash used in investing activities	(1,152,610)	(4,528,870)
Cash flows from financing activities		
Proceeds from debt	1,917,828	44,589,234
Payment of long-term debt	(1,778,362)	(1,196,182)
Member distributions, net	(4,630,953)	(49,102,125)
Net cash used in financing activities	(4,491,487)	(5,709,073)
Increase (decrease) in cash	(120,721)	198,982
Cash, beginning of year	613,302	414,320
Cash, ending of year	<u>492,581</u>	<u>613,302</u>

BROOKDALE CARRIAGE CLUB PROVIDENCE

Income Statement

For the years ending December 31, 2018 and 2017

	2018		2017
REVENUES			
Independent living	\$ 12,111,949	\$	12,436,451
Second Party Rents:	481,644		446,799
Assisted living	4,043,023		3,746,613
Memory Enhancement	2,689,964		2,629,308
Nursing care	2,657,960		2,720,923
Other Incomes	2,785,501		2,515,137
Total Operating Revenues	<u>\$ 24,770,041</u>	<u>\$</u>	<u>24,495,231</u>
EXPENSES			
Ancillary Expenses	\$ 1,648,641	\$	1,495,223
Home Health	-		-
Administration & General	2,022,124		2,091,423
Nursing	1,415,853		1,344,669
Memory Enhancement	723,535		701,472
Assisted Living	686,149		694,096
Plant Operations/Maintenance	1,226,076		1,092,298
Utility	685,537		660,893
Housekeeping & Laundry	439,890		469,067
Resident Services	825,463		771,504
Food Service	2,327,076		2,306,956
Marketing	576,785		546,019
General Insurance	279,959		218,021
Worker's Compensation	62,571		138,094
Depreciation & Amortization	3,898,674		3,729,840
Interest Expense	4,256,939		2,657,491
Property Tax	491,055		489,419
Property management	-		-
Total Operating Expenses	<u>\$ 21,566,327</u>	<u>\$</u>	<u>19,406,485</u>
Non-Operating Expenses	216,666		317,914
Net Income	<u>\$ 2,987,048</u>	<u>\$</u>	<u>4,770,832</u>