COLONIAL BANCGROUP INC
Form S-3
August 21, 2001

As filed with the Securities and Exchange Commission on August 21, 2001
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

THE COLONIAL BANCGROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	6711	63-0661573
(State of Incorporation)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

One Commerce Street, Suite 800 Montgomery, Alabama 36104 (Address of principal executive offices)	(334) 240-5000 (Telephone No.)

William A. McCrary
Senior Counsel
Post Office Box 1108
Montgomery, Alabama 36101-1108
(Name and address of agent for service)

Copies to:
Willard H. Henson
Miller, Hamilton, Snider & Odom, L.L.C.
One Commerce Street, Suite 305
Montgomery, Alabama 36104
Telephone: 334-834-5550
Facsimile: 334-265-4533

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

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [_]

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [X]

CALCULATION OF REGISTRATION FEE

Title of Shares to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock ($2.50 par value)................	1,089,517	$14.65	$15,961,424	$3990.35

(1) Estimated pursuant to Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the common stock as reported on the New York Stock Exchange on August 15, 2001 solely for the purpose of calculating the registration fee.

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

+The information in this prospectus is not complete and may be changed. We may +

+not sell these securities until the registration statement filed with the +
+Securities and Exchange Commission is effective. This prospectus is not an +
+offer to sell these securities and we are not soliciting an offer to buy +
+these securities in any state where the offer or sale is not permitted. +
++

(Subject to Completion)
Dated , 2001

PROSPECTUS

Shares

[The Colonial BancGroup, Inc. logo]

Common Stock

We are offering up to shares of our common stock, par value $2.50 per share, at a price of $ per share. We will receive all of the net proceeds from the sale of these shares. Our common stock is listed on the New York Stock Exchange under the trading symbol "CNB". On August , 2001, the last reported sale price of our common stock on the New York Stock Exchange was $ per share.

	Per Share	Total
Public offering price................................		
Proceeds, before expenses, to us.....................		

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2001.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this document and in our public documents to which we refer. When we use words such as "anticipate," "believe," "estimate," "may," "intend," "expect," "will," "should," "seeks" or other similar expressions we refer to events or conditions subject to risks and uncertainties. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this prospectus. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. In addition to the risks identified below, you should refer to our public documents for specific risks which could cause actual results to be significantly different from those expressed or implied by those forward-looking statements. Some factors which may affect the accuracy of the forward-looking statements apply generally to the financial services or real estate industries, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: (i) deposit attrition, customer loss, or revenue loss in the ordinary course of business; (ii) increases in competitive pressure in the banking industry; (iii) changes in the interest rate environment which reduce margins; (iv) general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in, among other things, a deterioration in credit quality, (v) changes which may occur in the regulatory environment; (vi) a significant rate of inflation or deflation; and (vii) changes in the securities markets.

Many of these factors are beyond our control and beyond the control of Colonial Bank. For a discussion of factors that could cause actual results to differ, please see the discussions in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2000 and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2001 and June 30, 2001.

GENERAL

In this prospectus, when we refer to "Colonial BancGroup," the "Company," "we," or "our", we are referring to The Colonial BancGroup, Inc., a Delaware corporation, and all of its subsidiaries. When we refer to "Colonial," or the "Bank" in this prospectus, we are referring to Colonial Bank, an Alabama banking corporation.

The Company

We are a Delaware corporation organized in 1974 as a bank holding company under the Bank Holding Act of 1956, as amended. Through our wholly-owned subsidiary, Colonial Bank, we conduct a general commercial banking business in the states of Alabama, Florida, Georgia, Nevada, Tennessee and Texas. At June 30, 2001, we had assets of $12.3 billion.

Our principal activity is to supervise and coordinate the business of our subsidiaries and to provide them with capital and services. We derive substantially all of our income from dividends received from Colonial Bank. Various statutory provisions and regulatory policies limit the amount of dividends Colonial Bank may pay us without regulatory approval. In addition, federal statutes restrict the ability of Colonial Bank to make loans to us.

As of June 30, 2001 Colonial Bank had a total of 243 branches, with 117 branches in Alabama, 89 branches in Florida, 22 branches in Georgia, two branches in Tennessee, three branches in Texas and ten branches in Nevada. Colonial Bank conducts a general commercial banking business in its respective service areas. Colonial Bank offers a variety of demand, savings and time deposit products as well as extensions of credit through personal, commercial and mortgage loans within each of its market areas. Colonial Bank also provides additional services to its markets through cash management services, electronic banking services, credit card and merchant services and wealth management services. Wealth management services include trust services and the sales of various types of investment products such as mutual funds, annuities, stocks, municipal bonds and U.S. government securities.

The mailing address and telephone number of our principal executive offices are as follows:

The Colonial BancGroup, Inc.
Post Office Box 1108
Montgomery, Alabama 36101-1108
(334) 240-5000

The Offering

Common Stock offered......	up to shares of common stock
Voting Rights.............	Holders of common stock are entitled to one vote per share and the common stock possesses in the aggregate 100% of the total voting power of our common stock.
Use of Proceeds...........	We intend to use the net proceeds of this offering for general corporate purposes.
Common Stock NYSE Symbol..	"CNB"

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Price Range of Common Stock and Dividends

Our common stock is listed on the New York Stock Exchange under the symbol "CNB." The following tables set forth, for the indicated periods, the high and low sale prices for our common stock as reported by the New York Stock Exchange and the cash dividends declared per share of our common stock for the indicated periods. The stock prices do not include retail mark-ups, mark-downs or commissions.

	Common Stock		
	Price Range		Cash Dividends Paid Per Share
	High	Low	
1999			
First Quarter............................	$12.563	$11.375	$.095

Second Quarter	13.938	11.188	.095
Third Quarter	15.000	10.375	.095
Fourth Quarter	12.938	10.188	.095
1999 Total			$.380
2000			
First Quarter	$10.750	$ 8.625	$.110
Second Quarter	11.250	9.000	.110
Third Quarter	10.750	9.688	.110
Fourth Quarter	11.125	8.313	.110
2000 Total			$.440
2001			
First Quarter	$13.120	$10.750	$.120
Second Quarter	14.750	12.05	.120
Third Quarter (through August 17, 2001)	14.94	14.05	.120
2001 Total through August 17, 2001			$.360

On , 2001, the closing sale price of our common stock as reported on the New York Stock Exchange was $ per share. We currently intend to declare and pay regular quarterly cash dividends on our common stock.

Our ability to pay dividends is restricted by certain regulations of the Federal Reserve as well as certain covenant restrictions contained in the indentures and loan agreements that govern the terms of our debt. A description of the regulatory framework in which we operate is provided in our Annual Report on Form 10-K for the year ended December 31, 2000 under the caption "Certain Regulatory Considerations" on page 2.

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Capitalization

The following table sets forth our capitalization on an actual basis at June 30, 2001 and on an adjusted basis to reflect the sale of the 1,089,517 shares of Common Stock to be sold by us in this offering (after deducting estimated offering expenses). You should read the information in the following table in conjunction with our consolidated financial statements and related notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2001 and June 30, 2001 which are incorporated in this prospectus by reference.

	As of June 30, 2001	
	Actual	As Adjusted
	(Dollars in thousands) (Unaudited)	
Short-Term Borrowings:		
Fed Funds & Repos	$ 1,309,765	$ 1,309,765
FHLB	200,530	200,530

Total Short-Term Borrowings	1,510,295	1,510,295
Long-Term Debt:		
FHLB	1,121,718	1,121,718
Subordinated Debt	256,061	256,061
Jr. Subordinated Debt	70,000	70,000
Convertible Debentures	3,998	3,998
Other	88,063	88,063
Total Long-Term Debt	1,539,840	1,539,840
Shareholders' Equity:		
Common Stock, $2.50 par value; 200,000,000 authorized; 113,090,845 shares issued	282,727	282,727
Treasury Stock, 2,376,746 shares held at June 30, 2001, 1,287,229 as adjusted, respectively	(22,571)	(12,585)
Additional Paid in Capital	119,731	125,783
Retained Earnings	422,459	422,459
Unearned Compensation	(4,027)	(4,027)
Unrealized gain/loss on securities available for sale, net of taxes	7,485	7,485
Total Shareholders' Equity	805,804	821,842
Total Capitalization	$3,855,939	$3,871,977

This table is based on shares outstanding at June 30, 2001 and does not include 3,202,372 shares of common stock issuable upon exercise of outstanding options and 412,178 shares of common stock issuable upon conversion of our outstanding 7.5% Convertible Subordinated Debentures due 2011 which are convertible at $7.00 per share and 151,056 shares of common stock issuable upon conversion of our 7.0% convertible Subordinated Debentures due 2004 which are convertible at $7.58 per share.

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Management

Certain information regarding security ownership of management, the biographies of the directors and executive officers of BancGroup, executive compensation and related party transactions is included in (i) BancGroup's Annual Report on Form 10-K for the fiscal year ending December 31, 2000, at item 10, and (ii) BancGroup's Proxy Statement for its 2001 Annual Meeting under the headings "Voting Securities and Principal Stockholders", "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Compensation Committee Interlocks and Insider Participation," "Executive Compensation," and "Executive Compensation Committee Report" at pages 2-15. BancGroup hereby incorporates such information by reference.

Description of Capital Stock

Our authorized capital stock consists of 200,000,000 shares of common stock, par value $2.50 per share. As of June 30, 2001, we had 110,714,099 shares of Common Stock issued and outstanding (net of treasury stock).

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of up to shares of common stock we are offering will be approximately $ million after deducting estimated offering expenses. For purposes of this calculation we have assumed a public offering price of $ per share. We intend to use the net proceeds for general corporate purposes.

The precise amounts and timing of the application of such proceeds depend upon many factors, including, but not limited to, the amount of any such proceeds and actual funding requirements. Until the proceeds are used, we may invest the proceeds, depending on our cash flow requirements, in short and long-term investments, including, but not limited to treasury bills, commercial paper, certificates of deposit, securities issued by U.S. government agencies, money market funds, repurchase agreements and other similar investments.

DETERMINATION OF OFFERING PRICE

The offering price will be based upon the market price of our common stock as reported by the New York Stock Exchange at the time of sale.

PLAN OF DISTRIBUTION

We anticipate selling the common stock offered hereby on the New York Stock Exchange. We may engage an agent to assist us in finding purchasers for our common stock. We anticipate that such agent will be paid a commission of $0. per share sold or an aggregate amount of $.

LEGAL MATTERS

The validity of the Common Stock will be passed upon for us by Miller, Hamilton, Snider & Odom, L.L.C., Montgomery, Alabama.

EXPERTS

The consolidated financial statements of BancGroup incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2000, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements, and other information with the SEC. You can read and copy these reports, proxy statements, and other information concerning us at the SEC's Public Reference Room at 450 Fifth Street, N. W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. You can review our electronically filed reports, proxy and information statements on the SEC's Internet site at http://www.sec.gov. Our common stock is quoted on the New York Stock Exchange. These reports, proxy statements and other information are also available for inspection at the offices of the New York Stock Exchange, 20 Broad Street, New York City, New York 10005.

We have filed a registration statement on Form S-3 with the SEC covering the common stock offered by this prospectus. This prospectus, which forms a part of the registration statement, does not contain all of the information included in the registration statement. For further information about us and our common stock you should refer to the registration statement and its exhibits. You can obtain the full registration statement from the SEC as indicated above.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This permits us to disclose important information to you by referring to these filed documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference:

- our Annual Report on Form 10-K for the year ended December 31, 2000,
- our Quarterly Reports on Form 10-Q for the periods ended March 31, 2001 and June 30, 2001,
- a description of our common stock, $2.50 par value per share, contained in our Registration Statement on Form 8-A, filed with the SEC on November 22, 1994 and effective February 22, 1995, and
- any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) under the Securities Exchange Act of 1934 until we sell all of the common stock under this prospectus.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

Office of the Senior Counsel
The Colonial BancGroup, Inc.
Colonial Financial Center
One Commerce Street
Fifth Floor
Montgomery, Alabama 36104
(334) 240-5000

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. We are not making an offer of the common stock in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this prospectus.

[The Colonial BancGroup, Inc. Logo]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses (other than underwriting discounts and commissions) to be borne by The Colonial BancGroup, Inc. (the "Registrant") in connection with the offering. All of the amounts shown are estimates except the SEC registration fee.

SEC Registration Fee	$ 3,990.35
Legal Fees and Expenses	7,500.00
Accounting Fees and Expenses	10,000.00
Printing and Mailing Expenses	5,500.00
Miscellaneous Expenses	2,500.00
Total Fees and Expenses	$29,490.35

Item 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Directors, officers, employees, and agents of BancGroup and its subsidiaries are entitled to indemnification as expressly permitted by the provisions of the General Corporation Law of the State of Delaware, BancGroup's restated certificate of incorporation, the charters of BancGroup's subsidiaries, and BancGroup's liability insurance. BancGroup has also entered into indemnification agreements with its directors regarding indemnification against certain liabilities. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, or persons controlling BancGroup pursuant to the foregoing provisions, BancGroup has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in that Act and is therefore unenforceable.

Item 16. EXHIBITS

The following exhibits either are filed herewith or incorporated by reference to documents previously filed or will be filed by amendment, as indicated below:

INDEX TO EXHIBITS

Exhibits	Description
4.1	Article 4 of the Restated Certificate of Incorporation of the Registrant filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, dated February 21, 1995, and incorporated herein by reference.
4.2	Amendment to Article 4 of Registrant's Restated Certificate of Incorporation, dated May 15, 1998, filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-4 (File No. 333-56241), effective June 22, 1998, and incorporated herein by reference.
4.3	Article II of the Bylaws of the Registrant filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K, dated February 21, 1995, and incorporated herein by reference.
4.4	Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan of the Registrant dated January 15, 1986, and Amendment No. 1 thereto dated as of June 10, 1986, filed as Exhibit 4(C) to the Registrant's Registration Statement on Form S-4 (File No. 33-07015), effective July 15, 1986, and Amendment No. 2 thereto filed as a Post-Effective Amendment to Form S-3 (File No. 33-62071) on June 18, 2001, and incorporated by reference.

4.5	All instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries. Not filed pursuant to clause 4(iii) of Item 601(b) of Regulation S-K; to be furnished upon request of the Commission.

Exhibits	Description
5.1	Opinion of Miller, Hamilton, Snider & Odom, L.L.C. as to certain Delaware law issues of the securities being registered.
12	Statements Regarding Computation of Earnings to Fixed Charges, filed as Exhibit 12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Miller, Hamilton, Snider & Odom, L.L.C.
24	Power of Attorney.

Item 17. UNDERTAKINGS

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time is was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide

offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Montgomery, State of Alabama, on the 20th day of August, 2001.

The Colonial BancGroup, Inc.

Signatures	Title	Date
/s/ Robert E. Lowder Robert E. Lowder	Chairman of the Board, President and Chief Executive Officer	**
/s/ W. Flake Oakley, IV W. Flake Oakley, IV	Chief Financial Officer, Executive Vice President and Secretary (Principal Financial Officer and Principal Accounting Officer)	**
* Lewis E. Beville	Director	**
* William Britton	Director	**
* Jerry J. Chesser	Director	**
* Augustus K. Clements, III	Director	**
Robert S. Craft	Director	
* Patrick F. Dye	Director	**
* Clinton O. Holdbrooks	Director	**
*	Director	**

Harold D. King

Signatures	Title	Date
* John Ed Mathison	Director	**
* Milton E. McGregor	Director	**
* John C. H. Miller, Jr.	Director	**
* Joe D. Mussafer	Director	**
* William E. Powell, III	Director	**
* James W. Rane	Director	**
* Frances E. Roper	Director	**
* Simuel Sippial	Director	**
* Edward V. Welch	Director	**

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* The undersigned, acting pursuant to a power of attorney, has signed this Registration Statement on Form S-3 for and on behalf of the persons indicated above as such persons true and lawful, attorney-in-fact and in their names, places and stead, in the capacities indicated above and on the date indicated below.

/s/ W. Flake Oakley, IV

W. Flake Oakley, IV Attorney-in-Fact

** Date: August 20, 2001.

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EXHIBIT INDEX

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4.5	All instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries. Not filed pursuant to clause 4(iii) of Item 601(b) of Regulation S-K; to be furnished upon request of the Commission.
5.1	Opinion of Miller, Hamilton, Snider & Odom, L.L.C. as to certain Delaware law issues of the securities being registered.
12	Statements Regarding Computation of Earnings to Fixed Charges, filed as Exhibit 12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Miller, Hamilton, Snider & Odom, L.L.C.
24	Power of Attorney.

-family:serif;font-weight:normal;color:#000000;font-size: 10pt; padding-top:3pt; padding-bottom: 3pt; text-align: left; font-style: normal; width: 416pt">In October 2002 the Company closed on the buyout of joint venture partner interests in one residence with an aggregate capacity of 40 residents. In consideration for the acquired interests the Company paid $800,000 in cash and issued a $1.0 million note.

• In December 2002 the Company entered into an agreement with one joint venture partner pursuant to which the Company agreed to purchase all the remaining joint venture interests not held by the Company in eight residences and to acquire promissory notes previously issued by the Company aggregating approximately $3.6 million in exchange for the issuance of a five year promissory note for $7.2 million from the Company. This settlement was effective with the Plan confirmation and the consummation of the merger.

The Company entered into the following joint venture settlements during 2003:

• In October 2003 the Company entered into an agreement with the Company's remaining joint venture partner group pursuant to which the Company agreed to purchase all of the remaining joint venture interests not held by the Company in 32 residences and to secure the release of the Company with respect to all claims held by these joint venture partners. Pursuant to this settlement agreement approved by the Court, the limited partners are entitled to receive from the Company an aggregate of $2.9 million of five-year promissory notes. This settlement was effective with the Plan confirmation and consummation of the merger.

(5) Assets Held for Sale

The Predecessor Company previously adopted a plan to dispose of or terminate leases on 143 residences with an aggregate capacity of 6,499 residents and 33 parcels of land. Residences included in the disposition plan were identified based on an assessment of a variety of factors, including geographic location, residence size, operating performance, and creditor negotiations.

The Predecessor Company has recorded an impairment loss on its properties held for sale whenever their carrying value cannot be fully recovered through the estimated cash flows, including net sale proceeds. The amount of the impairment loss recognized is the difference between the residence's carrying value and the residence's estimated fair value less costs to sell. The Company's

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policy is to consider a residence to be held for sale when the Company has committed to a plan to sell such residence and active marketing activity has commenced or it is expected to commence in the near term. During the year ended December 31, 2002, the Predecessor Company recognized an impairment loss of $12.9 million and reclassified as held for sale 19 residences included as part of executed deed in lieu restructuring agreements and six leased residences with pending sales. The impairment loss and revenues and expenses of those residences classified as held for sale subsequent to January 1, 2002 have been recorded as discontinued operations in the consolidated statements of operations.

As of November 30, 2003, 21 residences and five land parcels are held for sale. Assets held for sale principally comprises current assets and liabilities and net property and equipment. The corresponding mortgage liability is recorded in current debt maturities on assets held for sale. The Company expects to sell these residences and land parcels within twelve months of the date they are designated as held for sale.

The following table represents condensed operating information included in the loss on discontinued operations of the Consolidated Statements of Operations of the Company (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Operating loss	$ (1,824)	(8,559)
Impairment charges	(5,213)	(12,942)
Guaranty liability	—	(58,500)
Net asset write off of former subsidiary	—	(24,060)
Gain (loss) on debt extinguishment	—	5,954
Loss on sale or disposal of residences	(25,896)	(9,826)
Cumulative effect of change in accounting principle	—	(8,829)
Loss on discontinued operations	$ (32,933)	(116,762)

There are a number of factors that may affect the timing of a sale and the sale price that will ultimately be achieved for these residences, including, among other things, the following: potential increased competition from any other assisted living residences in the area, the relative attractiveness of assisted living residences for investment purposes, interest rates, the actual operations of the residence, and the ability to retain existing residents and attract new residents. As a result, there is no assurance as to what price will ultimately be obtained upon a sale of these residences or the timing of such a sale. The estimated fair value of the assets held for sale is reflected in current assets and the outstanding debt related to the assets held for sale is reflected in current liabilities on the consolidated balance sheets.

(6) Property and Equipment

As of December 31, 2002, property and equipment comprises the following (in thousands):

	2002
Land and improvements	$ 61,490
Buildings and leasehold improvements	444,880
Furniture, fixtures, and equipment	88,457
Total property and equipment	594,827
Less accumulated depreciation and amortization	(102,702)
Property and equipment, net	$ 492,125

At December 31, 2002, property and equipment includes $88.3 million of buildings and improvements held under capital and financing leases. The related accumulated amortization totaled $8.7 million at December 31, 2002.

(7) Unconsolidated Affiliates and Managed Residences

The Company managed certain residences operated by joint ventures in which it either had no ownership or a minority ownership position, typically less than 10%. As of December 31, 2002, the Company owned minority equity interests in entities owning or leasing (and also managed) 18 residences. Substantially all the earnings of these unconsolidated residences are included in the consolidated statements of operations. Effective September 30, 2003, the Predecessor Company early adopted FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, and based on an evaluation of the Company’s unconsolidated joint ventures, the residences operating under those joint ventures have been consolidated. Included in other current assets of the Company's balance sheet are net investment in and advances to affiliates of $1.7 million as of December 31, 2002.

The results of operations of these unconsolidated and managed residences operating under joint venture arrangements for 11 months ended November 30, 2003 and 2002 are as follows (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Resident service fees	$ 14,872	41,586
Residence operation expenses	10,800	30,337
Residence profit	4,072	11,249
Management fee expense	704	2,311
Financing expense	3,603	8,338
(Loss) income before tax	$ (235)	600

Financing expense on these residences includes $3.8 million and $13.8 million of lease and mortgage expense in 2003 and 2002 respectively, which represents lease income to the Company from these residences through September 30, 2003.

The Company also manages certain other residences, including residences managed as a result of the transfer of title to all the stock of its subsidiary to a third party. As of November 30, 2003 and 2002, the Company managed 17 and 29 residences, respectively.

(8) Restricted Cash and Investments

Restricted cash and investments consist of debt service reserves with interest rates ranging from 1% to 3% and maturities ranging from one to twelve months.

(9) Goodwill

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, ''Goodwill and Other Intangible Assets,'' having a required effective date for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives. The Company adopted SFAS No. 142 effective January 1, 2002.

Supplemental comparative disclosure as if the change had been retroactively applied to the prior period is as follows (in thousands):

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	11 Months Ended November 30, 2003	Fiscal Year Ended December 31,

		2002
Reported income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 521,861	(59,374)
Add: Goodwill amortization	—	—
Adjusted net income (loss) from continuing operations before cumulative effect of change in accounting principle	$ 521,861	(59,374)

(10) Other Assets

Other assets comprises the following at December 31, 2002 (in thousands):

	2002
Deferred financing costs, net	$ 18,710
Lease security deposits	7,443
Deposits and other	7,356
Total other assets	$ 33,509

(11) Long-term Debt, Capital Leases, Redeemable Preferred Stock, and Financing Obligations

Long-term debt, redeemable preferred stock, capital leases, and financing obligations comprises the following at December 31, 2002 (in thousands):

	2002
5.25% convertible subordinated debentures due December 15, 2002, originally callable by the Company on or after December 31, 2000	$ 112,043
7.00% convertible subordinated debentures due June 1, 2004, originally callable by the Company on or after June 15, 2000	40,355
6.75% convertible subordinated debentures due June 30, 2006, originally callable by the Company on or after July 15, 2000	34,850
9.75% Series A convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	42,500
9.75% Series B convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	155,167
9.75% Series C convertible debentures due May 31, 2007, originally callable by the Company on or after May 31, 2003	54,762
Total convertible debt	439,677
Mortgages payable, due from 2004 through 2037; weighted average interest rate of 6.46%	131,719
Capital and financing lease obligation payable through 2020; weighted average interest rate of 11.48%	76,967
Serial and term revenue bonds maturing serially from 2003 through 2013; interest rate of 7.34%	3,405
Notes payable to former joint venture partners through 2008; interest rates of 9.0%	15,286
Capital leases, financing obligations and mortgage payable in default and subject to acceleration; interest rates from 4.35% to 8.0%	306,253
Total long-term obligations	973,307
Less current installments and debt maturities on assets held for sale	801,797
Total long-term obligations, less current installments	$ 171,510

Certain of the Company's debt agreements require the Company to maintain financial ratios, including a debt service coverage ratio and occupancy ratio. As of November 30, 2003 the Company had obtained waivers for all past defaults.

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As of December 31, 2002, the Company was in violation of various covenants with several of its credit facilities. As the Company's principal credit, lease, and other financing facilities were cross-defaulted to a material default occurring under other credit, lease, or financing facilities, a payment default by the Company under one such facility resulted in the Company being in default under other such facilities. Obligations in the amount of $306.2 million were classified as current liabilities at December 31, 2002 because the applicable lenders had the right to accelerate their loans due to the existence of a default.

The Mortgages payable are collateralized by security agreements on property and equipment guarantees by the Company. In addition, certain security agreements require the Company to maintain collateral and debt reserve funds. These funds are recorded as restricted cash and long-term investments.

The Company leases property and equipment with net book values of $88.3 million at December 31, 2002, through various capital and financing leases. See note 18 for further information.

Unsecured notes payable outstanding to former joint venture partners total $15.3 million at December 31, 2002. See note 4 for further information.

In 2000, the Company completed a financing transaction in which it issued $173.0 million of convertible debentures and convertible preferred shares to several investors, including affiliates of the Company. The securities issued were initially convertible at $4.00 per share, bear a 9.75% semi-annual payment-in-kind (PIK) coupon or dividend, and have a seven-year maturity. The Company could call the securities at any time after three years if the trading price of the Company's Common Stock averaged at least $8.00 for the preceding 30 trading days. This initial closing contemplated that the Company had the option to issue up to an additional $29.9 million of these debentures within 180 days following the May 31, 2000 closing. The Company recorded a gain on the early extinguishment of debt of $8.5 million related to its retirement of $41.4 million of convertible debt in the initial closing. On August 10, 2000, the Company exercised its option to issue the additional $29.9 million of securities, thereby increasing the overall financing transaction to a total of $203.0 million (the May 31, 2000 and August 10, 2000 closings are referred to together as the 2000 Equity-Linked Transaction). The securities issued in this transaction include the following:

(a) Series A Stock

1,250,000 shares of the Series A Stock were sold for the stated value, $4.00 per share, representing aggregate proceeds of $5 million.

(b) Series A Debentures

The $42.5 million original aggregate principal amount of 9.75% Series A convertible pay-in-kind debentures due May 31, 2007 bore PIK interest at 9.75% per annum payable semi-annually in the form of additional Series B debentures on January 1 and July 1 of each year.

(c) Series B Debentures

The $112.6 million original aggregate principal amount of 9.75% Series B convertible pay-in-kind debentures due

May 31, 2007 bore PIK interest at 9.75% per annum payable semi annually in the form of additional Series B debentures on January 1 and July 1 of each year.

(d) Series C Debentures

The $42.8 million original aggregate principal amount of 9.75% Series C convertible pay-in-kind debentures due May 31, 2007 bore PIK interest at 9.75% per annum payable semi-annually in the form of additional Series C debentures on January 1 and July 1 of each year.

(12) Short-term Notes Payable

In 2001, the Predecessor Company obtained a $7.5 million Bridge Loan that had an initial six-month term, was secured by first mortgages on several residences, and originally bore interest at

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an escalating interest rate, commencing at 10% per annum. At the Company's election, the Bridge Loan was extended by an additional six months whereupon the Bridge Loan became convertible into convertible subordinated debentures of the Company having rights and terms substantially similar to the Series B 9.75% pay-in-kind convertible debentures, but having a conversion price equal to $75 per share of Series B preferred stock (a Common Stock equivalent price of $0.75 per share). The bridge lenders were entitled to participate in any transaction involving the issuance by the Company of equity or equity-linked securities during the term of the Bridge Loan. Effective March 1, 2002, the Company entered into an amendment with the bridge lenders that fixed the interest rate on the Bridge Loan at 9.0% per annum and extended the maturity date for the Bridge Loan to January 5, 2003.

(13) Accrued Expenses

Accrued expenses comprise the following at December 31, 2002 (in thousands):

	2002
Accrued salaries and wages	$ 13,520
Accrued interest	30,440
General liability insurance reserve	20,098
Accrued property taxes	6,373
Accrued vacation	4,751
Accrued workers compensation expense	955
Reserve for loss on joint venture settlements	9,407
Accrued professional fees related to bankruptcy administration	766
Other	5,841
Total accrued expenses	$ 92,151

The Company is self-insured or retains a portion of the exposure for losses related to workers compensation, healthcare benefits, and general liability costs. The reserves as of December 31, 2002 are based on claims filed and an actuarial estimate of expected losses.

(14) Stockholders' Equity

On December 10, 1998, the Company entered into a Rights Agreement with American Stock Transfer & Trust Company, as Rights Agent, pursuant to which it declared and paid a dividend of one preferred share purchase right (a Right) for each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, $0.01 par value per share (the Preferred Shares), of the Company at a price of $130.00 per one one-hundredth of a Preferred Share.

(15) Stock Options

Stock options are granted with an exercise price equal to the stock’s fair market value at the date of grant. Generally, stock options had 10-year terms, vested 25% per year, and would become fully exercisable after four years from the date of grant. At December 31, 2002, 1,371,460 shares were available for grant under the Stock Option Plan. There were no options granted or exercised during 2003.

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Stock option activity during the years ended December 31, 2002 was as follows:

	Number of shares	Weighted Average Exercise Price
Balance at December 31, 2000	965,187	$ 12.65
Granted	1,000,000	1.31
Exercised	—	—
Forfeited	267,170	14.06
Balance at December 31, 2001	1,698,017	5.75
Granted	—	—
Exercised	—	—
Forfeited	569,477	1.31
Balance at December 31, 2002	1,128,540	$ 7.04

Stock options outstanding at December 31, 2002 are as follows:

Range of Exercise Prices	Number Outstanding at December 31, 2002	Average Remaining Contractual Life	Weighted Average Price	Number Exercisable at December 31, 2002	Weighted Average Price
$0.09 - 1.40	501,229	6.0	$ 1.31	167,896	$ 1.30
1.40 - 8.69	354,313	4.2	5.80	324,249	5.81
8.70 - 17.94	55,807	4.4	15.66	55,807	15.66
17.95 - 20.81	190,895	6.0	18.80	189,517	18.81
20.82 - 29.56	26,296	5.3	29.34	26,296	29.34

Total	1,128,540	5.2	$ 7.04	763,765	$ 9.57

(16) Income Taxes

The components of the provision for income taxes for the period ended November 30, 2003 and year ended December 31, 2002, are as follows (in thousands):

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Income tax expense (benefit):		
Current:		
Federal	$ —	$ —
State	119	100
Total current	119	100
Deferred:		
Federal	—	—
State	—	—
Total deferred	—	—
Total	$ 119	$ 100

Deferred tax assets and liabilities consist of the following at December 31, 2002 (in thousands):

	2002
Deferred tax assets:	
Net operating loss carryforwards	$ 163,566
Development write-off	2,250
Building reserve	27,352
Accrued expenses	12,593
Investment in unconsolidated affiliates	1,017
Loss contingency	22,815
Other	741
Total deferred tax assets	230,334
Less valuation allowance	(218,899)
Deferred tax assets, net of valuation allowance	$ 11,435
Deferred tax liabilities:	
Property and equipment	$ 4,550
Deferred gain on sale/leaseback	5,170
Other	1,715
Deferred tax liabilities	$ 11,435

During 2000, a valuation allowance was established because the Company was uncertain that such deferred tax assets in excess of the applicable reversing deferred tax liabilities would be realized in future years. The valuation allowance established to reduce deferred tax assets as of December 31, 2002 was $218.9 million. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The effective tax rate on income before income taxes varies from the statutory Federal income tax rate as follows:

	11 Months Ended November 30, 2003	Fiscal Year Ended December 31, 2002
Statutory rate	35.0%	35.0%
State taxes, net	4.0	4.0
Valuation allowance	(59.4)	(25.9)
PIK interest	—	(4.1)
Stock transfer	23.6	(7.1)
Other	(3.3)	(1.9)
Effective rate	(0.1)%	0.0%

The Company has approximately $419.4 million of regular net operating loss carryforwards at December 31, 2002. Any unused net operating loss carryforwards will expire commencing in years 2007 through 2022. As a result of the emergence from bankruptcy, the net operating loss carryforwards were reduced to $116.6 million. These net operating loss carryforwards are subject to limitations under Section 382 of the Internal Revenue Code.

(17) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

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(a) Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

(b) Restricted Cash

The carrying amount approximates fair value because of the short maturity of the underlying investments. Restricted cash is classified as such because it is restricted as collateral for lease arrangements and debt service reserves.

(c) Short-term Notes Payable, Mortgages Payable, Convertible Subordinated Debentures Payable

The carrying amount of short-term notes payable approximates fair value because of the short maturity of those instruments.

The carrying amount of mortgages payable and financing obligations approximates fair value because the stated interest rates approximate fair value.

The fair value of the Company's convertible subordinated debentures is estimated based on quoted market prices. At December 31, 2002, the Company's convertible subordinated debentures had a book value of $187.3 million.

(18) Sale Leasebacks, Lease Commitments and Contingencies

Pursuant to the Merger Agreement, the maximum distribution to holders of unsecured claims is approximately $23 million (which includes payments pursuant to settlement agreements with holders of deficiency claims), which will be adjusted pursuant to the Merger Agreement based on working capital and the cash requirements of the Plan through the Effective Date. Certain creditors of the Company have filed requests for payment with the Bankruptcy Court. Additionally, a number of administrative claims have been filed with the Bankruptcy Court.

The Company has entered into sale/leaseback agreements with certain REITs as a source of financing the development, construction, and to a lesser extent, acquisitions of assisted living residences. Under such agreements, the Company typically sells to the REIT one or more residences at a negotiated value and simultaneous with such sale, the Company enters into a lease agreement for such residences. The initial terms of the leases vary from 10 to 15 years and include aggregate renewal options ranging from 15 to 30 years. The Company is responsible for all operating costs, including repairs, property taxes, and insurance. The annual minimum lease payments are based upon a percentage of the negotiated sales value of each residence. The residences sold in sale/leaseback transactions typically are sold for an amount equal to or less than their fair market value. The leases are accounted for as operating or capital leases with any applicable gain or loss realized in the initial sales transaction being deferred and amortized into income in proportion to rental expense over the initial term of the lease.

During 2002, the Company completed sale/leaseback transactions accounted for as a financing of 12 residences with REITs for an aggregate purchase price of $40.6 million. The proceeds of this refinancing were used principally to retire mortgage loan and accrued interest obligations.

In February 2003, the Company sold 25 residences, extinguished the related debt, and leased back the facilities under an operating lease. The Company also refinanced $6.9 million of debt secured by six residences.

As of November 30, 2003, the Company had six multi-residence portfolios leased from various REITs. These portfolios include an aggregate of 225 residences with an aggregate capacity of 9,609 beds. The Company has entered into restructuring agreements with respect to five of these leased portfolios, including amendments of certain lease covenants and terms and, in three lease facilities, the conversion of individual leases into single master leases. The cash rent due under one lease facility was modified through the application of various deposits held by the landlord to satisfy a portion of the cash rent obligation in the early years of the restructured master lease.

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The Company is required by certain REITs to obtain a letter of credit as collateral for leased residences. Outstanding letters of credit at November 30, 2003 and December 31, 2002 were $3.5 million.

In addition to leased residences, the Company leases certain office space and equipment under noncancelable operating leases with remaining initial terms of between 2 and 18 years. Rental expense on all operating leases, including residences, for the 11 month period ended November 30, 2003, and the fiscal year ended December 31, 2002 was $57.8 million, $58.7 million, respectively.

Future minimum lease payments for the next five years and thereafter under noncancelable leases at November 30, 2003, are as follows (in thousands):

	Capital	Operating
2004	$ 19,410	$ 59,673
2005	7,728	59,243
2006	7,728	58,548
2007	7,728	55,951
2008	7,728	51,308
Thereafter	142,076	508,828
Total minimum lease payment	192,398	$ 793,551
Less amount representing interest	115,431	
Long-term capital lease obligations	$ 76,967	

The minimum lease payments presented are the base rents at the initial term of the lease. The base rents may increase after the initial year on certain leases by the increase in the consumer price index and for other leases, as a percentage of increased gross revenues of the leased residence, thus the amounts being paid may be greater than the minimum lease payments.

From time to time, the Company is involved in various legal proceedings relating to claims arising in the ordinary course of its business. Neither the Company nor its subsidiaries is a party to any legal proceeding, the outcome of which, individually or in the aggregate, is expected to have a material adverse affect on the Company’s financial condition or results of operations.

(19) Subsequent Events

An additional nine residences and five land parcels were designated as assets held for sale effective December 1, 2003. In the period from December 1, 2003 to December 31, 2003, nine residences were sold or disposed of and approximately $28.6 million in debt was repaid or was assumed by the buyer.

In January 2004, the Company paid in full $17.1 million of debt outstanding as of December 31, 2003 relating to seven residences.

In January 2004, the Company’s Board of Directors approved a plan to sell an additional 13 residences. These properties are included in property and equipment at December 31, 2003 and have a net book value of $11.3 million. The estimated fair value of these properties exceeds their carrying value.

The Company terminated five residence leases and sold one land parcel subsequent to December 31, 2003. Additionally, pursuant to a prior agreement with one of the Company’s lenders, two residences were foreclosed upon. There was no significant gain or loss associated with these transactions.

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Brookdale Senior Living, Inc.

We have audited the accompanying consolidated balance sheet of CMCP – Properties, Inc. (the ''Company'') as of December 31, 2004, and the related consolidated statements of income, stockholder's equity, and cash flows for the year then ended and for the period from January 1, 2005 through December 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CMCP – Properties, Inc. at December 31, 2004, and the consolidated results of its operations and its cash flows for the year then ended and for the period from January 1, 2005 through December 30, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Dallas, Texas
February 14, 2006

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CMCP – Properties, Inc.

Consolidated Statements of Income

	Period from January 1, 2005 through	Year Ended December 31, 2004

	December 30, 2005	
Revenue		
Rent	$ 11,446,561	$ 10,264,866
Rent abatement amortization	(169,835)	(170,292)
Total revenue	11,276,726	10,094,574
Expense		
Interest expense:		
Borrowings secured by real estate	5,409,460	4,141,909
Issue cost amortization	324,383	325,256
Interest rate cap amortization	43,673	3,165
Line of credit fee	—	1,526
Total interest expense	5,777,516	4,471,856
Depreciation:		
Buildings	2,980,587	2,988,620
Furniture, fixtures and equipment	718,066	720,000
Total expenses	9,476,169	8,180,476
Operating income	1,800,557	1,914,098
Other revenue (expense)		
Interest on restricted cash	68,222	99,669
Interest expense – Parent	(1,460,044)	(1,676,182)
Management fee to Parent	(60,000)	(60,000)
Other operating expense	(19,084)	(34,158)
Total other revenue (expense)	(1,470,906)	(1,670,671)
Net income	$ 329,651	$ 243,427

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Consolidated Balance Sheet

	December 31, 2004
Assets	
Property:	
Land	$ 16,450,000
Buildings	119,550,497
Furniture, fixtures and equipment	3,600,000
	139,600,497
Accumulated depreciation – buildings	(7,975,319)
Accumulated depreciation – furniture, fixtures and equipment	(1,919,998)
	129,705,180
Restricted cash:	

Principal reserve funds	2,454,157
Interest rate cap reserve funds	264,162
Repair and replacement reserve fund	1,450,000
	4,168,319
Receivables and other assets	7,176,299
	$ 141,049,798
Liabilities	
Borrowings secured by real estate	$ 120,001,017
Payable to Parent	15,709,145
Accrued interest payable	115,000
	135,825,162
Stockholder's Equity	
Common stock – $0.01 par value; 1,000 shares authorized, issued and outstanding	10
Paid-in capital	5,528,686
Accumulated earnings	216,940
Accumulated other comprehensive loss	(521,000)
	5,224,636
	$ 141,049,798

See accompanying notes to financial statements.

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CMCP — Properties, Inc.

Consolidated Statements of Stockholder's Equity

	Common Stock	Paid-In Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2003	$ 10	$ 5,528,686	$ (26,487)	$ (233,000)	$ 5,269,209
Net income	—	—	243,427	—	243,427
Other comprehensive loss	—	—	—	(288,000)	(288,000)
Balance at December 31, 2004	10	5,528,686	216,940	(521,000)	5,224,636
Net income	—	—	329,651	—	329,651
Other comprehensive income	—	—	—	17,000	17,000
Conversion of payable to Parent to paid-in capital	—	10,254,632	—	—	10,254,632
Balance at December 30, 2005	$ 10	$ 15,783,318	$ 546,591	$ (504,000)	$ 15,825,919

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Consolidated Statements of Cash Flows

	Period from January 1, 2005 through December 30, 2005	Year Ended December 31, 2004
Operating activities:		
Net income	$ 329,651	$ 243,427
Non-cash items:		
Amortization of issue costs	324,383	325,256
Depreciation	3,698,653	3,708,620
Amortization of rent abatement	169,835	170,292
Interest rate cap amortization	43,673	3,165
Increase in principal and interest rate cap reserve funds	(1,484,759)	(1,340,989)
Net change in receivables and other assets	297,638	1,326
Increase in accrued interest payable	67,695	19,899
Net cash provided by operating activities	3,446,769	3,130,996
Investing activities:		
Net decrease in other restricted cash	1,455,764	5,866,690
Decrease in accounts receivable	777,585	245,295
Net cash provided by investing activities	2,233,349	6,111,985
Financing activities:		
Principal payments on borrowings	(225,605)	(205,197)
Decrease in payable to Parent	(5,454,513)	(9,037,784)
Net cash used in financing activities	(5,680,118)	(9,242,981)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	$ —	$ —

See accompanying notes to financial statements.

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CMCP – Properties, Inc.

Notes to Consolidated Financial Statements

Note 1 – Business and Sale of Entity

In May 2002 Capstead Mortgage Corporation (‘‘CMC’’ or the ‘‘Parent’’), through its qualified real estate investment trust (‘‘REIT’’) subsidiary, CMCP – Properties, Inc. (‘‘CMCP’’ or the ‘‘Company’’) acquired six ‘‘independent’’ senior living facil (collectively, the ‘‘Properties’’). The aggregate purchase price of the Properties was $139.7 million, including approximately $3.1 million in closing costs and the assumption by CMCP of $19.7 million of related mortgage debt and $101.1 million of tax-exempt bond debt. The following table summarizes information about the Properties:

Property	Location	Year Opened
Chambrel at Roswell	Roswell, GA	1987
Chambrel at Pinecastle	Ocala, FL	1987
Chambrel at Island Lake	Longwood, FL	1985
Chambrel at Montrose	Akron, OH	1987
Chambrel at Williamsburg	Williamsburg, VA	1987
Chambrel at Club Hill	Garland, TX	1987

The Properties were acquired pursuant to purchase agreements initially negotiated and executed by an affiliate of Brookdale Living Communities, Inc. (collectively with its subsidiaries, ‘‘Brookdale’’) and subsequently assigned to CMCP. Brookdale, an owner, operator, developer and manager of senior living facilities, is a majority-owned affiliate of Fortress Investment Group, LLC. Fortress Investment Group, LLC was affiliated with CMC until July 22, 2003. Concurrent with the acquisition, the Company entered into a long-term ‘‘net-lease’’ arrangement with Brookdale, under which Brookdale is responsible for the ongoing operation and management of the Properties.

On December 30, 2005, CMC sold the stock of CMCP to Brookdale for $57.5 million.

Note 2 – Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of CMCP and its subsidiaries. Intercompany balances and transactions have been eliminated. Real estate held for lease and related assets are owned by real estate subsidiaries and pledged to secure related borrowings.

Use of Estimates

The use of estimates is inherent in the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The straight-line amortization of issue costs is based on the estimated 11 years the tax-exempt bonds are expected to be outstanding. Depreciation on real estate is based on estimates of the useful lives of buildings, furniture, fixtures and equipment, which could be affected by significant adverse events or changes in circumstances and potentially lead to impairment charges.

Real Estate

Land, buildings, furniture, fixtures and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets (40 years for buildings and five years for furniture, fixtures and equipment).

Should a significant adverse event or change in circumstances occur, management will assess if the real estate has become impaired. Real estate is evaluated for impairment if estimated operating cash flows (undiscounted and without interest charges) over its remaining useful life are less than its

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net carrying value. If impaired, the difference between net carrying value and fair value (based on standard real estate appraisal techniques) would be included in expense as an impairment charge. No impairment charges have been taken as of December 30, 2005.

Recognition of Rent on Real Estate Held for Lease

Rent is recognized on a straight-line basis over the term of the related lease. Accordingly, a three-month rent abatement at the beginning of the lease has been deferred and is being amortized over the 20-year term of the lease. As of December 31, 2004, the accumulated balance of deferred rent is $3.0 million.

Derivative Financial Instruments

The Company may from time to time acquire derivative financial instruments (‘‘Derivatives’’) for risk management purposes. These may include interest rate floors, swaps and caps, U.S. Treasury futures contracts and options, written options on financial assets or various other Derivatives available in the marketplace that are compatible with the Company’s risk management objectives. Derivatives held are recorded as assets or liabilities at fair value on the Company’s balance sheet. The accounting for changes in fair value of each Derivative held depends on whether it has been designated and qualifies as an accounting hedge, as well as the type of hedging relationship identified.

CMCP has made limited use of Derivatives during the year ended December 31, 2004 and for the period from January 1, 2005 through December 30, 2005. Included in Receivables and other assets are interest rate caps acquired in connection with the 2002 assumption and subsequent refinancing of tax-exempt bonds secured by the Properties (see NOTE 4), which are designated as an accounting hedge with changes in value considered 100% correlated to changes in expected future cash flows of the variable-rate bonds, excluding the effects of time value. Accordingly, changes in fair value are recorded in Accumulated other comprehensive income (loss).

Income Taxes

CMC and its qualified REIT subsidiaries (including the Company) have elected to be taxed as a REIT for federal income tax purposes. As a result, the Company is included in the tax return of CMC for the year ended December 31, 2004 and the period from January 1, 2005 through December 30, 2005. A REIT will generally not be subject to income tax as long as it distributes at least 90 percent of its ordinary taxable income and meets certain other requirements. Accordingly, no provision for income taxes has been made for the Company for the year ended December 31, 2004 and the period January 1, 2005 through December 30, 2005.

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Note 3 – Real Estate Held for Lease

The lease arrangement consists of a master lease covering all of the Properties and individual property-level leases (referred to collectively as the ‘‘Lease’’). The Lease has an initial term of 20 years and provides for two 10-year renewal periods. Beginning May 1, 2007, Brookdale will have the option of purchasing all of the Properties from CMCP at the greater of fair value or CMCP’s original cost, after certain adjustments. Brookdale is responsible for paying all expenses associated with the operation of the Properties, including real estate taxes, other governmental charges, insurance, utilities and maintenance, and an amount representing a cash return on CMCP’s equity in the Properties after payment of monthly debt service, subject to annual increases based upon increases (capped at 3%) in the Core Consumer Price Index. Brookdale is responsible for changes in related debt service requirements under the terms of the Lease. The Lease qualifies as an operating lease for financial reporting purposes with future minimum rentals expected for the remainder of the lease as follows (in thousands):

2005	$ 11,447
2006	11,416
2007	11,416
2008	11,416
2009	11,416
Thereafter	140,793
	$ 197,904

Included in Receivables and other assets at December 31, 2004 was $1.2 million of rent and other receivables due from Brookdale.

Note 4 – Borrowings Secured by Real Estate

The components of Borrowings secured by real estate and related weighted average interest rates (calculated including bond issue cost amortization) were as follows as of December 31, 2004 (dollars in thousands):

	Borrowings Outstanding	Average Rate
Mortgage borrowings	$ 19,160	7.92%
Tax-exempt bonds	100,841	2.98
	$ 120,001	3.77

Mortgage borrowings consist of a fixed-rate mortgage secured by one senior living facility that matures in 2009. The tax-exempt bonds are credit-enhanced by Fannie Mae and secured by mortgages on the remaining five senior living facilities. Interest rates on the bonds adjust weekly based on the Bond Market Association Municipal Swap Index (‘‘BMA Index’’). Interest rate cap agreements with notional amounts aggregating $100.8 million, five-year terms, and cap rates equal to a 6% BMA Index, are held to provide funds to pay interest on the bonds in excess of a 6% BMA Index, should that occur. Monthly interest rate cap and principal reserve fund payments are made to the trustee for the purchase of new cap agreements in 2007 and the eventual retirement of the bonds by 2032. Held in escrow by the bond trustee as of December 31, 2004 were a total of $4.2 million in interest rate cap reserves, principal reserves and repair and replacement reserves. Included in Receivables and other assets are $2.9 million in bond issue costs net of

$682,000 in accumulated amortization. Amortization expense over the next five years is estimated to be $325,000 per year.

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Weighted average effective interest rates for Borrowings secured by real estate (calculated including bond issue cost amortization) were 4.82% and 3.71% during the period from January 1, 2005 through December 30, 2005 and the year ended December 31, 2004, respectively. Related interest paid totaled $5.8 million and $4.5 million during the period from January 1, 2005 through December 30, 2005 and the year ended December 31, 2004, respectively. As of December 31, 2004, future maturities and principal reserve fund requirements for these borrowings were as follows (in thousands):

2005	$ 1,513
2006	1,617
2007	1,730
2008	1,850
2009	19,831
Thereafter	91,024
	$ 117,565

Note 5 – Management Agreement

Pursuant to a management agreement, CMC administers the day-to-day operations of the Company. CMC is at all times subject to the supervision of the Company's Board of Directors and has only such functions and authority as the Company delegates to it. CMC receives an annual basic management fee of $60,000 per year ($10,000 per property). The agreement is nonassignable except by consent of the Company and CMC. The agreement may be terminated without cause at any time upon 90 days written notice. In addition, the Company has the right to terminate the agreement upon the happening of certain specified events, including a breach by CMC of any provision contained in the agreement which remains uncured for 30 days after notice of such breach and the bankruptcy or insolvency of CMC.

CMC is required to pay employment expenses of its personnel (including salaries, wages, payroll taxes, insurance, fidelity bonds, temporary help and cost of employee benefit plans), and other office expenses, travel and other expenses of directors, officers and employees of CMC. The Company is required to pay all other expenses of operation (as defined in the agreement).

Note 6 – Payable to Parent

On January 1, 2004, the Company signed a $30 million revolving subordinated promissory note with CMC under which interest accrued on amounts payable based on the annual federal short-term rate as published by the Internal Revenue Service. This note matured January 1, 2005 and was renewed for another year. Interest of $1.5 million and $1.7 million was paid during 2005 and 2004, respectively. The note, with a balance of $10.3 million, was capitalized prior to the sale of the Company on December 30, 2005.

Note 7 – Stockholder’s Equity

CMC was the sole stockholder of the Company until the Company was sold to Brookdale on December 30, 2005.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
American Retirement Corporation:

We have audited the accompanying consolidated balance sheets of American Retirement Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Retirement Corporation and subsidiaries as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Nashville, Tennessee
February 24, 2006

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2006 (Unaudited)	December 31, 2005	December 31, 2004
ASSETS			
Current assets:			
Cash and cash equivalents	$ 84,245	$ 40,771	$ 28,454
Restricted cash	21,824	18,554	25,270
Accounts receivable, net of allowance for doubtful accounts	27,227	24,480	16,175
Inventory	1,442	1,389	1,364
Prepaid expenses	4,594	3,346	2,667
Deferred income taxes	9,378	9,795	5,645
Other current assets	12,524	15,790	8,490
Total current assets	161,234	114,125	88,065
Restricted cash, excluding amounts classified as current	10,746	9,881	24,864
Land, buildings and equipment, net	558,257	551,298	496,297
Notes receivable	33,234	32,865	18,563
Deferred income taxes	45,231	45,234	—
Goodwill	36,463	36,463	36,463
Leasehold acquisition costs, net of accumulated amortization	21,346	21,938	29,362
Other assets	78,570	67,670	55,636
Total assets	$945,081	$879,474	$ 749,250
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$ 7,437	$ 11,978	$ 10,372
Current portion of capital lease and lease financing obligations	16,946	16,868	16,474
Accounts payable	5,825	4,902	5,937
Accrued payroll and benefits	10,169	12,599	10,125
Accrued property taxes	6,629	8,653	8,872
Other accrued expenses	9,899	12,428	9,023
Other current liabilities	8,568	9,072	8,505
Tenant deposits	4,566	4,563	4,804
Refundable portion of entrance fees	85,434	85,164	79,148
Deferred entrance fee income	37,591	38,407	33,800
Total current liabilities	193,064	204,634	187,060
Long-term debt, less current portion	117,591	134,605	125,584
Capital lease and lease financing obligations, less current portion	156,281	160,549	182,652
Deferred entrance fee income	125,112	122,417	111,386
Deferred gains on sale-leaseback transactions	86,392	89,012	98,876
Deferred income taxes	—	—	4,163
Other long-term liabilities	24,692	24,186	19,615
Total liabilities	703,132	735,403	729,336
Minority interest	12,330	11,316	14,213
Commitments and contingencies (See notes)			
Shareholders' equity:			
Preferred stock, no par value; 5,000,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, $.01 par value; 200,000,000 shares authorized, 35,286,257 (unaudited), 31,751,575 and 25,636,429 shares issued and outstanding, respectively	350	315	252

Additional paid-in capital	315,194	225,476	168,092
Accumulated deficit	(85,925)	(90,727)	(160,425)
Deferred compensation, restricted stock	—	(2,309)	(2,218)
Total shareholders' equity	229,619	132,755	5,701
Total liabilities and shareholders' equity	$945,081	$879,474	$ 749,250

See accompanying notes to consolidated financial statements.

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three months ended March 31,		Year ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Revenues:					
Resident and health care	$127,786	$116,653	$488,383	$443,443	$396,307
Management and development services	1,224	500	3,528	1,882	1,522
Reimbursed expenses	2,083	802	3,089	2,284	2,148
Total revenues	131,093	117,955	495,000	447,609	399,977
Costs and operating expenses:					
Cost of community service revenue, exclusive of depreciation expense presented separately below	83,454	78,301	326,504	300,797	280,808
Lease expense	15,333	15,510	60,936	60,076	46,484
Depreciation and amortization, inclusive of general and administrative depreciation and amortization of $364 (unaudited), $943 (unaudited), $1,925, $1,990, and $1,728, respectively	9,407	9,271	36,392	31,148	26,867
Amortization of leasehold acquisition costs	592	699	2,567	2,917	2,421
Loss (gain) on disposal or sale of assets	84	12	709	(41)	(23,153)
Reimbursed expenses	2,083	802	3,089	2,284	2,148
General and administrative	9,942	6,591	30,327	28,671	25,410
Total costs and operating expenses	120,895	111,186	460,524	425,852	360,985
Income from operations	10,198	6,769	34,476	21,757	38,992
Other income (expense):					
Interest expense	(4,270)	(3,557)	(15,815)	(31,477)	(53,570)
Interest income	1,626	720	4,364	2,783	2,762
Other	(214)	139	192	447	132
Other expense, net	(2,858)	(2,698)	(11,259)	(28,247)	(50,676)
Income (loss) before income taxes and minority interest	7,340	4,071	23,217	(6,490)	(11,684)
Income tax expense (benefit)	2,714	1,375	(47,530)	2,421	2,661

Income (loss) before minority interest	4,626	2,696	70,747	(8,911)	(14,345)
Minority interest in losses (earnings) of consolidated subsidiaries, net of tax	176	(71)	(1,049)	(2,406)	(1,789)
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$ (11,317)	$ (16,134)
Basic earnings (loss) per share	$ 0.14	$ 0.09	$ 2.29	$ (0.48)	$ (0.88)
Dilutive earnings (loss) per share	$ 0.14	$ 0.09	$ 2.17	$ (0.48)	$ (0.88)
Weighted average shares used for basic earnings (loss) per share data	33,798	28,899	30,378	23,798	18,278
Effect of dilutive common stock options and non-vested shares	1,098	1,801	1,746	—	—
Weighted average shares used for dilutive earnings (loss) per share data	34,896	30,700	32,124	23,798	18,278

See accompanying notes to consolidated financial statements.

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Common stock Shares	Amount	Additional paid-in capital	Accumulated deficit	Deferred Compensation	Total shareholders' equity
Balance at December 31, 2002	17,341,191	$ 173	$ 145,706	$(132,974)	$ —	$ 12,905
Net and comprehensive loss	—	—	—	(16,134)	—	(16,134)
Issuance of common stock pursuant to associate stock purchase plan	62,793	1	111	—	—	112
Issuance of common stock for conversion of convertible debentures	2,266,517	23	5,079	—	—	5,102
Balance at December 31, 2003	19,670,501	$ 197	$ 150,896	$(149,108)	$ —	$ 1,985
Net and comprehensive loss	—	—	—	(11,317)	—	(11,317)
Issuance of common stock pursuant to associate stock purchase plan	155,042	2	598	—	—	600
Issuance of common stock pursuant to employee stock option exercise,	561,988	5	2,813	—	—	2,818

including related income tax benefit						
Issuance of common stock for conversion of convertible debentures	4,808,898	48	11,167	—	—	11,215
Issuance of restricted stock	440,000	—	2,618	—	(2,618)	—
Amortization of restricted stock	—	—	—	—	400	400
Balance at December 31, 2004	25,636,429	$ 252	$ 168,092	$(160,425)	$(2,218)	$ 5,701
Net and comprehensive income	—	—	—	69,698	—	69,698
Issuance of common stock pursuant to secondary offering	5,175,000	52	49,878	—	—	49,930
Issuance of common stock pursuant to associate stock purchase plan	101,000	1	978	—	—	979
Issuance of restricted stock	277,000	—	2,038	—	(2,038)	—
Cancellation of restricted stock	(42,910)	—	(311)	—		(311)
Issuance of common stock pursuant to employee stock option exercise, including related income tax benefit	605,056	10	4,801	—	—	4,811
Amortization of restricted stock	—	—	—	—	1,947	1,947
Balance at December 31, 2005	31,751,575	$ 315	$ 225,476	$ (90,727)	$(2,309)	$ 132,755

See accompanying notes to consolidated financial statements.

AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Cash flows from operating activities:					
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$(11,317)	$(16,134)
Adjustments to reconcile net income (loss) to cash and cash equivalents provided by operating activities:					
Tax benefit from release of tax valuation allowance	—	—	(55,697)	—	—
Depreciation and amortization	9,999	9,970	38,959	34,065	29,288
Loss on extinguishment of debt	—	—	794	—	—

Non-cash stock-based compensation expense	1,495	218	1,947	400	—
Tax benefit from exercise of stock options	—	395	2,266	432	—
Amortization of deferred financing costs	197	96	674	4,700	2,259
Amortization of prepaid insurance	1,131	1,050	—	—	—
Non-cash interest income	(36)	—	—	—	—
Accrual of deferred interest	—	—	—	—	1,996
Amortization of deferred gain on sale-leaseback transactions	(2,961)	(2,956)	(11,815)	(10,902)	(4,960)
Loss (gain) on sale or disposal of assets	84	12	709	(41)	(23,153)
Losses (gains) from unconsolidated joint ventures	346	(66)	(6)	278	478
Deferred income taxes	2,218	(765)	(243)	(484)	1,645
Minority interest in (losses) of consolidated subsidiaries	(176)	71	1,049	2,406	1,789
Entrance fee items:					
Amortization of deferred entrance fee income	(4,639)	(4,064)	(18,264)	(17,502)	(15,423)
Proceeds from entrance fee sales-deferred income	8,789	7,805	37,404	31,992	30,588
Changes in assets and liabilities, exclusive of acquisitions and sale-leaseback transactions:					
Accounts receivable	(2,747)	334	(9,031)	(1,273)	(792)
Inventory	(53)	49	(17)	(56)	183
Prepaid expenses	(2,479)	(1,834)	(915)	1,233	188
Other assets	(216)	(609)	(2,393)	2,303	5,825
Accounts payable	923	(517)	(1,040)	1,137	(1,093)
Accrued interest	(29)	(499)	(159)	(204)	392
Other accrued expenses and other current liabilities	(7,737)	(757)	3,181	(190)	(99)
Tenant deposits	3	(9)	(331)	53	(237)
Deferred lease liability	1,094	1,249	2,638	5,285	3,472
Other liabilities	(366)	57	1,347	(3,184)	1,033
Net cash and cash equivalents provided by operating activities	9,642	11,855	60,755	39,131	17,245
Cash flows from investing activities:					
Additions to land, buildings and equipment	(13,985)	(5,679)	(36,440)	(19,262)	(16,467)
Acquisition of communities and property, net of cash acquired	—	(13,950)	(20,007)	—	—
Investment in joint ventures	(12,568)	—	(13,635)	—	—
Distributions received from joint ventures	324	—	—	—	—
Proceeds from the sale of assets	—	208	9,472	12,594	8,405
Acquisition of other assets	(118)	—	(1,000)	—	—
Investment in restricted cash	(4,150)	(3,389)	(13,617)	(22,551)	(29,734)
Proceeds from release of restricted cash	734	3,749	34,263	14,540	27,353
Net change in other restricted cash accounts	(719)	(1,181)	785	342	(391)
Issuance of notes receivable	(376)	—	(9,465)	—	(4)
Receipts from notes receivable	145	42	333	362	255
Other investing activities	—	233	908	358	112
Net cash and cash equivalents used by investing activities	(30,713)	(19,967)	(48,403)	(13,617)	(10,471)

(continued)

See accompanying notes to consolidated financial statements.

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	Three months ended March 31, 2006	Three months ended March 31, 2005	Years ended December 31, 2005	Years ended December 31, 2004	Years ended December 31, 2003
	(unaudited)				
Cash flows from financing activities:					
Proceeds from the issuance of long-term debt	7,650	—	23,736	54,100	19,267
Proceeds from lease financing	—	—	—	120,500	—
Proceeds from the issuance of common stock, net of transaction expenses of $1,916 (unaudited), $3,166 (unaudited), $3,166, $0 and $0, respectively	89,854	49,934	49,930	—	—
Proceeds from the issuance of stock pursuant to the associate stock purchase plan	561	—	979	597	112
Proceeds from the exercise of stock options	369	540	2,545	2,389	—
Tax benefit from exercise of stock options in excess of recognized compensation cost	448	—	—	—	—
Refundable entrance fee items:					
Proceeds from entrance fee sales – refundable portion	2,896	4,996	14,895	12,069	11,202
Refunds of entrance fee terminations	(4,370)	(6,517)	(21,105)	(12,871)	(15,107)
Principal payments on long-term debt	(33,394)	(32,283)	(63,309)	(184,962)	(17,551)
Distributions to minority interest holders	(762)	(984)	(4,066)	(4,215)	(3,228)
Principal reductions in master trust liability	(244)	(285)	(1,071)	(1,234)	(1,389)
Expenditures for financing costs	(163)	(63)	(2,569)	(625)	(978)
Contingent earnouts	1,700	—	—	—	(594)
Net cash and cash equivalents provided (used) by financing activities	64,545	15,338	(35)	(14,252)	(8,266)
Net increase (decrease) in cash and cash equivalents	$ 43,474	$ 7,226	$ 12,317	$ 11,262	$ (1,492)
Cash and cash equivalents at beginning of period	40,771	28,454	28,454	17,192	18,684
Cash and cash equivalents at end of period	$ 84,245	$ 35,680	$ 40,771	$ 28,454	$ 17,192
Supplemental disclosure of cash flow information:					
Cash paid during the period for interest	$ 3,947	$ 3,771	15,608	24,338	40,449
Income taxes paid	$ 120	$ 611	5,048	4,838	1,761

Supplemental disclosure of non-cash transactions during the years ended December 31, 2005, 2004 and 2003:

During the years ended December 31, 2005, 2004 and 2003, the Company (acquired)/sold certain communities and interests in real property and improvements, and entered into and amended certain lease agreements for an aggregate (consideration) proceeds of ($10.5 million), $12.6 million and $8.4 million. In conjunction with these transactions, assets and liabilities changed as follows:

	Years ended December 31, 2005	2004	2003
Land, buildings and equipment (acquired) disposed	$ (59,698)	$ 16,165	$ 115,223
Other assets	6,631	(7,131)	(3,643)
Accrued interest and other liabilities	265	(6,926)	(1,597)

Refundable portion of entrance fees	631	—	—
Deferred entrance fee income	9,779	—	—
Deferred gain on sale-leaseback transaction	—	16,568	69,934
Long-term debt, including current portion	26,819	—	(168,471)
Minority interest	5,038	(6,082)	(3,041)
Cash (paid) received in conjunction with (acquisition) disposal of communities and property, net of cash received or paid	$ (10,535)	$ 12,594	$ 8,405

(continued)

See accompanying notes to condensed consolidated financial statements.

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During the years ended December 31, 2005 and 2004, contingent earn-out agreements related to three free-standing assisted living communities (which were sold and leased-back in 2002) expired. These agreements constituted continuing involvement at the time of the lease, thus the transaction was recorded as a lease financing. The expiration of these contingent earn-out agreements results in operating lease treatment for the two free-standing assisted living communities. As a result, land, buildings and equipment and debt changed as follows:

	Years ended December 31,		
	2005	2004	2003
Land, buildings and equipment	$ (5,332)	(12,420)	$ —
Lease financing obligations	5,538	12,849	—
Deferred gains on sale-leaseback transactions	(206)	(429)	—

During the year ended December 31, 2005, the Company completed a transaction with a real estate investment trust (‘‘REIT’’) pursuant to which the Company received $9.5 million in proceeds under its existing leases on two of its retirement center communities. This investment by the REIT is recorded by the Company as a refinancing of a previous $8.7 million note payable. In connection with this refinancing, the Company incurred a loss on debt extinguishment which is included as a non-cash charge in the Company's consolidated statements of cash flows for the year ended December 31, 2005.

During the years ended December 31, 2005 and 2004, the Company granted 277,000 and 440,000, respectively, shares of restricted stock. Initially measured compensation related to these grants was $1.7 million and $2.6 million, respectively, which is being amortized as compensation expense over the period of vesting. See Note 12. In addition, during the year ended December 31, 2004, the Company issued 4,808,898 shares of common stock, par value $0.01 per share, to certain holders of the Series B Notes. The holders elected to convert $10.9 million of the Series B Notes to common stock at the conversion price of $2.25 per share. During the year ended December 31, 2003, the Company issued 2,266,517 common shares, par value $0.01 per share, to holders of the Company's 10% Series B Convertible Senior Subordinated Notes (Series B Notes). The holders elected to convert $5.1 million of the Series B Notes to common stock at the conversion price of $2.25 per share. As a result, debt and equity changed as follows:

	Years ended December 31, 2005	2004	2003
Accrued interest	$ —	$ 383	(5,102)
Long-term debt	—	10,820	23
Common stock	—	48	5,079
Additional paid-in capital	2,034	13,773	—
Deferred compensation, restricted stock	(2,034)	(2,618)	—

Supplemental disclosure of non-cash transactions during the three months ended March 31, 2006 (unaudited) and 2005 (unaudited):

During the three months ended March 31, 2005, the Company acquired an entrance-fee continuing care retirement community and a free-standing assisted living community for approximately $14.0 million of cash (including estimated closing costs of $0.6 million) plus the assumption of various liabilities, including existing entrance fee refund obligations. As a result of the transaction, assets and liabilities changed as follows:

	Three months ended March 31, 2006 (unaudited)	2005 (unaudited)
Land, buildings and equipment acquired, net	$ —	$ 26,139
Deferred entrance fee income	—	(9,779)
Refundable portion of entrance fees	—	(631)
Other	—	(1,779)
Cash paid for acquisition of community and property	$ —	$ 13,950

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AMERICAN RETIREMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Presentation

The accompanying consolidated financial statements include the accounts of American Retirement Corporation (‘‘ARC’’) and its wholly-owned and majority-owned subsidiaries (ARC and such subsidiaries being collectively referred to as the ‘‘Company’’) that operate, own and manage senior living communities. The accounts of limited liability companies, joint ventures and partnerships are consolidated when the Company maintains effective control over such entities' assets and operations, notwithstanding, in some cases, a lack of majority ownership. Under current authoritative literature, the Company consolidates the communities it manages for others if the Company has the unilateral ability to conduct the ordinary course of business of the managed communities and is the primary beneficiary of the managed entities’ operations. As a result, the Company consolidates the operating results of a managed community and a community currently under development. All significant inter-company balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies and Practices

The Company principally provides housing, health care, and other related services to senior residents through the operation and management of senior living communities located throughout the United States. The communities provide a combination of independent living, assisted living and skilled nursing services. The following is a summary of the Company's significant accounting policies.

(a) Use of Estimates and Assumptions: The preparation of the consolidated financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings and equipment, leasehold acquisition costs, goodwill, purchase options and contingent earn-outs; valuation allowances for accounts and notes receivable and deferred income tax assets; actuarial life expectations of residents; and obligations related to employee benefits and liability claims. Actual results could differ from those estimates.

(b) Recognition of Revenue: The Company provides residents with housing and health care services through various types of agreements. The Company also receives fees for developing certain communities and managing other senior living communities owned by others.

The majority of the Company's communities provide housing and health care services through annually renewable agreements with the residents. Under these agreements, residents are billed monthly fees for housing and additional services, which are recognized as revenue under these agreements on a monthly basis as the services are provided to its residents.

Management services revenue is recorded monthly as services and administrative support under management agreements are provided to the owners and lessees of the subject communities. Such revenues are determined by an agreed formula set forth in the applicable management agreement (e.g., a specified percentage of revenues, income or cash flows of the managed community, or a negotiated fee per the management agreement).

Certain communities provide housing and health care services under various types of entrance fee agreements with residents (entrance fee communities). These agreements require new independent living residents to pay an upfront entrance fee, and may obligate the Company to provide a limited healthcare benefit in the form of future assisted living or skilled nursing housing and services during the life of the resident. These benefits generally take the form of reduced monthly or daily rates for assisted living or skilled nursing services, or a certain number of days of these services are allowed at no additional cost during each quarter or year. Each new entrance fee resident must meet certain asset and income criteria as part of these lifecare agreements.

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Generally, a portion of the entrance fee is refundable to the resident or the resident's estate upon termination of the agreement. Since termination of a resident's agreement can result under many contracts in a refund being due in less than one year, the refundable portion of these entrance fees (equal to the stated fixed minimum refund percentage) is recorded on the balance sheet as a current liability. The remaining portion of entrance fees is shown as deferred entrance fee income. While deferred entrance fee income is generally classified as a long-term liability on the balance sheet, a portion is shown as a current liability during the early years of a resident's agreement (only until the contractual provisions of the agreement decrease the potential refund to the fixed minimum percentage stated in the agreement).

The deferred entrance fee income is amortized into revenue using the straight-line method over the estimated remaining life expectancy of the resident, based upon actuarial projections. Additionally, under these agreements the residents pay a monthly service fee, which entitles them to the use of certain amenities and certain services. Residents may also elect to obtain additional ancillary services, which are also billed on a monthly basis, as the services are provided. The Company recognizes these additional fees as revenue on a monthly basis when earned.

Certain communities also provide services under a type of an entrance fee agreement whereby the entrance fee is fully refundable to the resident or the resident's estate contingent upon the occupation of the unit by the next resident, unless otherwise required by applicable state law. In this situation, the resident also shares in a percentage, typically 50%, of any appreciation in the entrance fee paid by the succeeding resident, but receives no healthcare benefit. This contingent refund is paid to the preceding resident only upon occupancy of the unit by a new, succeeding resident. Because these refunds are contingent and only payable out of subsequent entrance fee proceeds, these entrance fees are classified on the Company's consolidated balance sheet as deferred entrance fee income. Because these units can be reoccupied during the remaining life of the building and the Company's obligations continue as long as the unit can be reoccupied, these refunds are amortized into revenue on a straight-line basis over the remaining life of the building. Additionally, under these agreements the residents pay a monthly service fee, which entitles them to the use of certain amenities and services. These residents may also elect to obtain additional ancillary services, which are billed on a monthly basis, as the services are provided. The Company recognizes these additional fees as revenue on a monthly basis when earned. If residents terminate these agreements, they are required to continue to pay their monthly service fee for the lesser of a specified time period (typically one year) or until the relevant unit is reoccupied.

Resident and health care revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Company also provides certain management services related to the development or expansion and construction management of senior living communities, for which it receives certain fees. The Company recognizes these revenues as services are rendered.

(c) Cash and Cash Equivalents: For purposes of the Consolidated Statements of Cash Flows, the Company considers highly liquid debt investments with original maturities of three months or less to be cash equivalents.

(d) Restricted Cash: Restricted cash includes cash equivalents held by lenders under loan agreements in escrow for property taxes and property improvements, operating reserves required by certain state licensing authorities and certificates of deposit, held as collateral for letters of credit or in conjunction with leasing activity and insurance requirements, as well as resident deposits. Restricted cash is determined to be short-term when the restriction requirement will expire within twelve months.

For purposes of the Consolidated Statements of Cash Flows, purchases of restricted cash instruments and proceeds from the sale or release of such instruments are presented gross if

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their expected turnover or maturity exceeds three months. Activity for restricted cash accounts which have a turnover rate of three months or less is presented net.

(e) Accounts Receivable: Accounts receivable are reported at the net invoiced amount. The allowance for doubtful accounts is the estimated amount of probable credit losses in accounts receivable. At December 31, 2005 and 2004, the allowance for doubtful accounts included in accounts receivable is \$4.2 million and \$3.2 million, respectively. During the year ended December 31, 2005 and 2004, the Company recorded \$2.3 million and \$1.9 million, respectively, of bad debt expense. The Company determines the allowance based on historical write-off experience, actual resident information and payor type. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(f) Inventory: Inventory consists of supplies and is stated at the lower of cost (first-in, first-out) or market.

(g) Land, Buildings, and Equipment: Land, buildings, and equipment are recorded at cost and include interest capitalized on long-term construction projects during the construction period, as well as other costs directly related to the acquisition, development, and construction of the communities. In accordance with the Company's policy, expenditures related to maintaining and enhancing communities under its control are capitalized where such expenditures exceed \$500 and enhance the value of or increase the economic life of the underlying asset. Maintenance, repairs and betterments that do not enhance the value of or increase the life of the assets are expensed as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 15 to 40 years, and furniture, fixtures and equipment are depreciated over three to seven years. Assets under lease financings and leasehold improvements are amortized over the shorter of their useful life or remaining base lease term. Construction in progress includes costs incurred related to the development, construction or remodeling of senior living communities. If a project is abandoned or delayed, any costs previously capitalized are measured for impairment and expensed accordingly.

(h) Purchase Options: Purchase options to acquire property are recorded at their cost and, upon exercise, are applied to the cost of the property at the time of acquisition. Nonrefundable purchase options are expensed when they expire or when the Company determines it is no longer probable that the property will be acquired. If the Company determines at some future time that it no longer intends to exercise these options, that it will transfer them for other consideration, or that their value is impaired, a loss would be recorded at that time.

(i) Notes Receivable: Notes receivable are recorded at cost, less any related allowance for impairment. Impairment losses are included in the allowance for doubtful accounts through a charge to bad debt expense. Management considers a note to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement.

(j) Goodwill: Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires intangible assets with definite useful lives be amortized over their respective useful life to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. As of March 31, 2006 (unaudited) and December 31, 2005 and 2004, the Company had \$36.5 million of goodwill.

(k) Leasehold Acquisition Costs: Leasehold acquisition costs consist primarily of costs incurred in conjunction with entering into certain new leases and for costs incurred for the acquisition of

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lease rights from previously managed special purpose entity communities. These costs provide the Company the opportunity to lease the communities. Leasehold acquisition costs are amortized principally on a straight-line basis over the remaining contractual or expected life of the related lease agreements if shorter.

(l) Other Assets: Other assets consist primarily of security deposits, unexercised nonrefundable purchase options, deferred financing costs, costs of acquiring lifecare contracts, deferred entrance fee receivables, contingent earn-outs, investments in joint ventures and investments in leased communities. Deferred financing costs are amortized using the straight-line method over the terms of the related debt agreements. Costs of acquiring initial lifecare contracts are amortized over the life expectancy of the initial residents of a lifecare community. Nonrefundable purchase options to acquire property are recorded at their cost and, upon exercise, are applied to the cost of the property acquired. Contingent earn-outs represent management's estimate of additional sale proceeds to be received from the counterparty in certain sale lease-back transactions which were accounted for as financing transactions. Management periodically assesses the recoverability of the recorded balances of contingent earn-outs and adjusts the carrying amount to its revised estimate with a corresponding increase or decrease to interest expense. Investments in leased communities represent the Company's investment in two retirement centers and one free-standing assisted living community and are accounted for using the equity method.

(m) Accounting for Interests in Joint Ventures: The Company makes a determination whether it holds a controlling interest in joint ventures is which it has only partial ownership. In cases where it has a majority or controlling ownership, the entity is consolidated with an adjustment for the minority interest of the third parties. When the Company owns a non-controlling minority interest (since other partners or members control or participate in the management decisions of these entities), the investments are accounted for under the equity method. The investments are recorded at cost and subsequently adjusted for equity in net income (losses) and cash contributions and distributions. The Company recognizes profits on sales of services to these entities to the extent of the ventures' outside ownership interest. The Company recognizes an impairment loss when there is a loss in the value in the equity method investment which is deemed to be an other-than-temporary decline. See Note 8. In the case of ventures which are considered to be variable interest entities, the Company will consolidate the results of these ventures in accordance with FIN No. 46R, Consolidation of Variable Interest Entities, if it is the primary beneficiary.

(n) Lease Classification: The Company, as the lessee, makes a determination with respect to each of these leases whether they should be accounted for as operating or financing leases. The Company bases its classification criteria on estimates regarding the fair value of the leased community, minimum lease payments, the Company's effective cost of funds, the economic life of the community and certain other terms in the lease agreements. Lease expense attributable to communities under operating leases is recognized on a straight-line basis over the base lease term. Contingent rent that depends on factors directly related to the future use of leased property is accrued when it is deemed probable such amounts will be due. For communities under financing obligation arrangements, a liability is established on the balance sheet based on either the present value of the lease payments or the gross proceeds received and a corresponding long-term asset is recorded. Lease payments are allocated between principal and interest on the lease obligation and the lease asset is depreciated over the term of the lease. In addition, the Company depreciates assets under lease financings and amortizes leasehold improvements over the shorter of their economic life or the base lease term. Sale lease-back transactions are recorded as lease financing obligations when the transactions include a form of continuing involvement, such as purchase options or contingent earn-outs.

Certain of these leases provide for various additional lease payments, as well as renewal options. Many of these leases contain fixed or formula based rent escalators. To the extent that the formula based escalator is based on a fixed rate increase, lease payments are accounted for

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on a straight-line basis over the life of the lease. In addition, the Company recognizes all rent holidays in operating leases on a straight-line basis over the lease term, including the rent holiday period.

(o) Other Liabilities: The Company periodically reviews the adequacy of its accruals related to general and professional liability, workers' compensation, employee medical claims and other claims on an ongoing basis, using historical claims, third party administrator estimates, advice from legal counsel and industry loss development factors.

(p) Obligation to Provide Future Services: Under the terms of certain entrance fee contracts, the Company is obligated to provide future lifecare services to its residents. The Company, through the use of external advisors, periodically calculates the present value of the net cost of future services and use of facilities and compares that amount with the present value of future resident cash inflows. If the present value of the net cost of future services and use of facilities exceeds discounted future cash inflows, a liability will be recorded with a corresponding charge to income. As of March 31, 2006 (unaudited) and December 31, 2005 and 2004, the Company did not have a liability associated with its obligation to provide future services and use of facilities.

(q) Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are recorded using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to adjust net deferred tax assets to the amount which management believes will more likely than not be recoverable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(r) Earnings per Share: Basic and diluted earnings per share for the three years ended December 31, 2005, 2004 and 2003 and the three months ended March 31, 2006 (unaudited) and 2005 (unaudited) have been computed on the basis of the weighted average number of shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. During the three months ended March 31, 2006 and 2005 and the year ended December 31, 2005, there were approximately 1.9 million (unaudited), 2.1 million (unaudited) and 2.1 million options, respectively, to purchase shares of common stock which had an exercise price below the average market price of the common shares outstanding on a weighted average basis. All options outstanding during the years ended December 31, 2004 and 2003 were excluded from the computation of diluted earnings per share for such periods because of net losses during those periods.

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A computation of diluted earnings (loss) per share is as follows (in thousands):

	Three months ended March 31, 2006	Three months ended March 31, 2005	For the year ended December 31, 2005	For the year ended December 31, 2004	For the year ended December 31, 2003
	(unaudited)				
Net income (loss)	$ 4,802	$ 2,625	$ 69,698	$ (11,317)	$ (16,134)
Weighted average shares used for basic earnings per share data	33,798	28,899	30,378	23,798	18,278
Effect of dilutive common securities:					
Employee stock options and non-vested stock	1,098	1,801	1,746	—	—
Weighted average shares used for diluted earnings per share data	34,896	30,700	32,124	23,798	18,278
Basic income (loss) per share	$ 0.14	$ 0.09	$ 2.29	$ (0.48)	$ (0.88)
Effect of dilutive securities	—	—	(0.12)	—	—
Diluted income (loss) per share	$ 0.14	$ 0.09	$ 2.17	$ (0.48)	$ (0.88)

The Company had 28,000 (unaudited), 111,000 (unaudited) and 28,000 options outstanding during the three months ended March 31, 2006 and 2005 and the year ended December 31, 2005, respectively that were excluded from the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive. All options outstanding during the year ended December 31, 2004 and 2003 were excluded from the computation of diluted earnings per share for such periods because of net losses during these periods.

During 2004 and 2003, the Company elected to redeem the balance of its 10% Series B Convertible Senior Subordinated Notes due 2008 (Series B Notes). The notes were not included in the computation of diluted earnings per share for the year ended December 31, 2004 and 2003 as the effect would be anti-dilutive.

(s) Stock-Based Compensation: In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Accounting for Share Based Payment, an amendment to SFAS No. 148, Stock-Based Compensation — Transition and Disclosure and a revision to SFAS No. 123, Accounting for Stock-Based Compensation (''SFAS No. 123(O)''). SFAS No. 123(R) requires alternative methods of transition for the change to the fair value method of accounting for stock-based employee compensation and is effective as of the beginning of the first annual period that begins after June 15, 2005. The impact of the adoption of SFAS No. 123(R) is discussed in Note 2(z) to these consolidated financial statements.

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123(O) established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. The following table illustrates the effect on net income (loss) if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

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	For the year ended December 31, 2005	2004	2003
Net income (loss), as reported	$ 69,698	$ (11,317)	$ (16,134)
Add: Stock based compensation included in net income	1,913	400	—
Deduct total stock-based employee compensation expense determined under fair-value-based method, net of tax	(3,295)	(1,346)	(557)
Pro forma net income (loss)	$ 68,316	$ (12,263)	$ (16,691)
Income (loss) per share:			
Basic – as reported	$ 2.29	$ (0.48)	$ (0.88)
Diluted – as reported	$ 2.17	$ (0.48)	$ (0.88)
Basic – pro forma	$ 2.25	$ (0.52)	$ (0.91)
Diluted – pro forma	$ 2.13	$ (0.52)	$ (0.91)

(t) Fair Value of Financial Instruments: The carrying amount of cash and cash equivalents approximates fair value because of the short-term nature of these accounts and because amounts are invested in accounts earning market rates of interest. The carrying value of restricted cash, accounts receivable, debt associated with assets held-for-sale and accounts payable approximate their fair values because of the short-term nature of these accounts. The carrying value of notes receivable and debt approximates fair value as the interest rates approximate the current rates available to the Company. The interest rate swap is carried at fair value.

(u) Derivative Financial Instruments: The Company recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it.

At December 31, 2005 and 2004, the Company's derivative financial instruments consisted of one interest rate swap agreement accounted for as a hedge against changes in the fair value of certain debt liabilities. The notional amount of the agreement is $34.8 million and matures on July 1, 2008. Under the terms of the agreement, the Company receives a fixed rate payment of 6.87% on the respective debt (balance at December 31, 2005 was $32.9 million), but pays a floating rate stated by the swap agreement based on LIBOR and a foreign currency index, with a maximum rate of 8.12%. The fair value of the remaining interest rate swap as of December 31, 2005 and 2004 was a $0.8 million and a $0.9 million liability, respectively. Subsequent changes in the fair values of the interest rate swap are recorded in earnings.

(v) Impairment of Long-Lived Assets: In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property and equipment, and certain identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are separately presented on the balance sheet as held-for-sale and reported at the lower of the carrying amount or fair value less the costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset and liability section of the balance sheet.

(w) Comprehensive Income (Loss): During 2005, 2004 and 2003, the Company's only component of comprehensive income (loss) was net income (loss).

(x) Segment Disclosures: The Company operates in three reportable business segments: retirement centers, free-standing assisted living communities and management services.

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(y) Reclassifications: Certain amounts have been reclassified to conform to fiscal 2005 presentation.

(z) Recently Issued Accounting Standards:

In December 2004, the FASB issued SFAS No. 153, ''Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.'' The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005, while early application was permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after December 2004. The Company adopted the provisions of SFAS No. 153 on April 1, 2005.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (''FIN No. 47''). FIN No. 47 clarifies that the term, conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional upon a future event that may or may not be within the control of the entity. Even though uncertainty about the timing and/or method of settlement exists and may be conditional upon a future event, the obligation to perform the asset retirement activity is unconditional. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred generally upon acquisition, construction, or development or through the normal operation of the asset. SFAS No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of FIN No. 47 had no material effect on the Company's financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, ''Accounting Changes and Error Corrections'', a replacement to APB Opinion No. 20, ''Accounting Changes'' and SFAS No. 3, ''Reporting Accounting Changes in Interim Financial Statements.'' SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. Additionally, SFAS No. 154 carries forward the guidance in APB Opinion No. 20 for reporting the correction of an error, a change in accounting estimate and requires justification of a change in accounting principle. This pronouncement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and accordingly, the Company will adopt SFAS No. 154 in the first quarter of 2006.

In June 2005, the Emerging Issues Task Force (''EITF'') reached a consensus on Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination (''EITF 05-06''). EITF 05-06 concludes that the amortization period for leasehold improvements acquired in a business combination and

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leasehold improvements that are in service significantly after and not contemplated at the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of inception. As of December 31, 2005, this pronouncement had no material effect on the Company's financial position, results of operations or cash flows.

In June 2005, the EITF reached consensus in EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, to provide guidance on how general partners in a limited partnership should determine whether they control a limited partnership and therefore should consolidate it. The EITF agreed that the presumption of general partner control would be overcome only when the limited partners have either of two types of rights. The first type, referred to as kick-out rights, is the right to dissolve or liquidate the partnership or otherwise remove the general partner without cause. The second type, referred to as participating rights, is the right to effectively participate in significant decisions made in the ordinary course of the partnership's business. The kick-out rights and the participating rights must be substantive in order to overcome the presumption of general partner control. The consensus is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified subsequent to the date of FASB ratification (June 29, 2005). For existing limited partnerships that have not been modified, the guidance in EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of EITF 04-5 will have a material effect on its financial position, results of operations or cash flows.

On October 6, 2005, the Financial Accounting Standards Board (''FASB'') released FASB Staff Position (''FSP'') FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. This FSP affects companies that are engaged in construction activities on buildings or grounds, which are accounted for as operating leases. The FSP requires companies to expense rental costs associated with these leases starting on the date that the tenant is given control of the premises. As a result, companies must cease capitalizing rental costs during construction periods. The FSP is effective for the first reporting period beginning after December 15, 2005. Retrospective application is permitted but not required. The January 1, 2006 adoption of FSP FAS 13-1 did not have a material effect on the Company's financial position, results of operations or cash flows for the period, however, the accounting related to future acquisition activity could be affected by the provisions of this statement.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (''SFAS No. 123(R)''). This standard revises SFAS No. 123, APB No. 25 and related accounting interpretations, and eliminates the use of the intrinsic value method. This standard requires the expensing of all stock-based compensation, including stock options, using the fair value based method. In April 2005, the Securities and Exchange Commission (''SEC'') issued a release that amends the compliance dates for SFAS 123(R), which requires us to apply SFAS No. 123(R) as of January 1, 2006. The Company has adopted SFAS No. 123(R) as of January 1, 2006.

SFAS 123(R) requires public companies to adopt its requirements using either the ''modified prospective'' or the ''modified retrospective'' method. The ''modified prospective'' method requires the recognition of compensation cost beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 as originally issued (‘‘SFAS No. 123(O)’’) for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date. The ‘‘modified retrospective’’ method includes the requirements of the modified prospective method described above, but also permits the Company to restate, based on the amounts previously recognized under SFAS No. 123(O) for purposes of pro forma disclosures, either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company has elected to expense its share-based payments using the modified prospective transition method prescribed in SFAS No. 123 (R).

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As permitted by SFAS No. 123(O) and through December 31, 2005, the Company accounted for share-based payments to employees using APB No. 25’s intrinsic value method and, since prior grants were generally issued with an exercise price equal to the market price of our common stock on the date of grant, recognized no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123(R)’s fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. Had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123(O) as described in the disclosure of pro forma net income and earnings per share in Note 2(s) to these consolidated financial statements.

As of December 31, 2005, the Company had approximately 0.8 million unvested options outstanding that will be expensed over the applicable remaining requisite service period. The total fair value of these unvested outstanding options is approximately $1.9 million, net of deferred tax benefits of approximately $0.6 million, of which $0.7 million will be expensed during fiscal 2006, net of $0.1 million of deferred tax benefits. As shown on the following table, the total estimated impact of the adoption of SFAS No. 123(R) and total expense related to all stock-based compensation plans for the year ending December 31, 2006 is expected to approximate $1.5 million and $4.1 million, respectively (amounts shown below in millions):

Unvested options[1]	$ 0.8
Estimated fiscal 2006 option grants	1
Associate Stock Purchase Plan	0.2
Estimated deferred tax benefits	(0.5)
Total estimated expense associated with adoption of SFAS No. 123R	1.5
Restricted stock, net of estimated deferred tax benefits	2.6
Total estimated fiscal 2006 stock compensation expense	$ 4.1

[1] Relates to the expense associated with unvested options outstanding prior to the adoption of SFAS No. 123R.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Because the timing of these cash flows are directly dependent upon when employees exercise stock options, the Company cannot reliably estimate the impact of this change to its statements of cash flows.

The weighted average fair value of options granted during 2005, 2004 and 2003 was $6.89, $2.40, and $1.02, respectively. Considering 2005 market trends, we expect this average to continue to increase. The Company had 0.8 million and 0.7 million unvested options outstanding at December 31, 2005 and 2004, respectively.

Other recent accounting pronouncements issued did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

(aa) Share-Based Payment (Unaudited)
On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) requiring the measurement and recognition of all share-based compensation under the fair value method. The Company implemented SFAS No. 123(R) using the modified prospective transition method.

Accordingly, for the three months ended March 31, 2006, the Company recognized share-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Prior to 2006, the Company accounted for share-based awards under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to

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Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its stock option plans. Under this method, compensation expense was generally recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Prior period financial statements have not been adjusted to reflect fair value of share-based compensation expense under SFAS No. 123(R).

As permissible under SFAS No. 123(R), the Company changed its method of expense attribution for fair value share-based compensation from the accelerated approach to the straight-line approach for all new awards granted. The Company anticipates that the straight-line method will provide a more meaningful measure of costs incurred as options are generally granted with vesting provisions that are subject to time-based vesting requirements. At January 1, 2006, there was no unrecognized compensation for share-based awards granted prior to the adoption of SFAS No. 123(R) that will be required to be recognized under the accelerated method.

The Company uses historical data and projections to estimate expected employee behaviors related to option exercises and forfeitures. SFAS No. 123(R) requires that forfeitures be included as part of the grant date estimate. The cumulative effect of forfeitures related to previous SFAS No. 123 pro forma expense was not material. Prior to adopting SFAS No. 123(R), the Company reduced share-based compensation expense when forfeitures occurred.

The Company estimates the fair value of each stock option award on the grant date using the Black-Scholes-Merton valuation model incorporating the assumptions noted in the following table. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimate. Expected volatility and dividends are based on implied and historical factors related to the Company's common stock. Expected term represents the estimated weighted-average time between grant and employee exercise. Risk-free rate is based on U.S. Treasury rates appropriate for the expected term. The following table reflects pro forma information for the period ended March 31, 2005 had the Company applied the fair-value provisions of SFAS 123.

	Three Months Ended March 31,	
	2006	2005 (pro forma)
Option valuation assumptions:		
Dividend yield	—	—
Expected volatility	55.2%	66.7%
Risk-free interest rate	4.5%	2.3%
Weighted-average expected term of options granted	4.8 years	3.0 years
Weighted-average grant date fair value per share- options granted	$15.54	$5.61
Total intrinsic value of options exercised during the period (in millions)	$1.1	$1.1
Total fair value of restricted shares vested during the period (in millions)	$1.1	$0.2

Stock-based compensation awards are granted under the American Retirement Corporation 1997 Stock Incentive Plan (''the 1997 Plan''). In 1997, the Company adopted a stock incentive plan (the ''1997 Plan''). The 1997 Plan allows for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code as well as stock options which do not so qualify, stock appreciation rights, restricted stock, performance units and performance shares, phantom stock awards and share awards. Persons eligible to receive grants under the 1997 Plan include the Company's non-employee directors, employees, officers, and consultants. The options generally expire ten years from the date of grant and vest ratably over a three-year period. The exercise price of options granted to employees under the 1997 Plan was equal to the fair value of the Company's common stock on the option grant date. As of March 31, 2006, 1.0 million shares of unissued common stock remain reserved for future grants under the 1997 Plan.

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Stock Options

A summary of the Company's stock option information at December 31, 2005 and activity for the three months ended March 31, 2006 is presented below (shares in thousands) (weighted average remaining contractual term in years):

Options	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2005	1,937	$ 4.43	$ 36.2		6.84

Granted	72	26.56	—	$ 15.54	
Exercised	(58)	6.67	1.1	2.62	
Forfeited	(24)	11.23	0.3	5.15	
Outstanding at March 31, 2006	1,927	7.12	35.6		6.68
Exercisable at March 31, 2006	1,219	4.80	25.4		

At March 31, 2006 and December 31, 2005, the Company had 0.6 million and 0.8 million unvested options outstanding at a weighted average grant-date fair value of $4.31 and $4.06, respectively. During the three months ended March 31, 2006, 0.1 million options vested at a weighted average grant-date fair value of $2.48 million.

Restricted Stock

On September 22, 2005, the Company granted certain members of management a total of 277,000 shares of performance-based non-vested stock. One-third of shares underlying the grant vested on March 31, 2006, and the remainder will vest in two equal tranches on March 31, 2007 and March 31, 2008, subject to continued employment and the Company's achievement of certain performance targets. The first tranche was subject to ''variable'' accounting rules under APB No. 25. As a result, compensation expense related to these grants was recognized as the shares vested and varied with changes in the Company's stock price prior to the January 1, 2006 adoption of SFAS No. 123(R). In accordance with the provisions of SFAS No. 123(R), the Company expensed the remainder of the unvested shares over the vesting term based on the $18.23 grant-date fair value beginning January 1, 2006. Compensation expense for the three months ended March 31, 2006 is representative only of the first tranche that vested on March 31, 2006. Compensation expense on the second and third tranches will be recognized on a straight-line basis over the respective requisite service periods.

On July 19, 2004, the Company granted certain members of management a total of 440,000 shares of restricted stock. This stock had a $5.95 market value at the date of grant and vests ratably over a period of three years from the grant date, subject only to continued employment. Compensation expense related to the 2004 grant was considered ''fixed'' under the provisions of APB No. 25 and is treated in a similar manner under SFAS No. 123(R). Compensation expense related to this grant will be recognized on a straight-line basis over the remaining requisite service period. Approximately 280,000 shares related to this grant remain unvested at March 31, 2006.

The following table compares total share-based compensation expense for the three months ended March 31, 2006 and 2005 (in thousands):

	Three Months Ended March 31,	
	2006	2005
Total share-based compensation expense	$ 1,495	$ 218
Tax benefit	(428)	—
Total share-based compensation, net of tax	$ 1,067	$ 218

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The following table compares the net income for the three months ended March 31, 2006 reflecting SFAS No. 123(R) share-based compensation of $1,067, net of tax, reported in the current quarter compared to the March 31, 2005 pro forma SFAS No. 123 fair value compensation of $28 thousand, net of tax, and reported APB No. 25 intrinsic value compensation of $0.2 million, net of tax, consisting of restricted stock amortization (in thousands, except per share amounts).

	Three Months Ended March 31,	
	2006	2005
Reported net income	$ 4,802	$ 2,625
Additional pro forma stock-based compensation, net of tax	—	(28)
Comparative net income	$ 4,802	$ 2,597
Basic earnings per share as reported	0.14	0.09
Basic earnings per share (prior year pro forma)	0.14	0.09
Diluted earnings per share as reported	0.14	0.09
Diluted earnings per share (prior year pro forma)	0.14	0.09

At March 31, 2006, $7.4 million of unrecognized stock-based compensation expense for all outstanding unvested stock options and restricted stock is expected to be recognized over a weighted average period of 2.1 years.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the condensed consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Task Force (‘‘EITF’’) Issue No. 00-15, Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option. SFAS No. 123(R) requires the benefit of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as ‘‘tax benefit from exercise of stock options in excess of recognized compensation cost’’ on the unaudited condensed consolidated statement of cash flows. This requirement reduced net operating cash flows and increased financing cash flows by $0.4 million for the three months ended March 31, 2006. Had SFAS No. 123(R) been adopted on January 1, 2005, net operating cash flows would have been reduced by $0.4 million and net financing cash flows would have increased by $0.4 million for the three months ended March 31, 2005. Prior period results have not been restated to conform to current period presentation.

In accordance with APB No. 25, the Company presented the unamortized expense associated with the restricted stock grants as an offsetting amount to additional paid in capital. This ‘‘gross up’’ presentation is prohibited under SFAS No. 123(R) since the full fair value of share-based payments is not recognized until the associated instrument vests. As a result, the Company discontinued this method of accounting and reclassified the unamortized expense into additional paid-in capital on January 1, 2006. This reclassification had no impact to the Company's financial position, results of operations or cash flows.

(3) Restricted Cash

The composition of restricted cash at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Held by trustee under agreement:		
Certificates of deposit	$ 8,859	$ 18,122
Cash and other short-term investments	19,576	32,012
	28,435	50,134

Less long-term restricted cash	9,881	24,864
Short-term restricted cash	$ 18,554	$ 25,270

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The certificates of deposit are pledged to a variety of parties for various reasons such as state requirements (primarily for entrance fee communities), collateral for various self-insurance programs, and collateral to support the Company's lease obligations. The Company recognizes interest income on these certificates of deposit when earned.

(4) Other Current Assets

A summary of other current assets at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Lifecare receivables	$ 4,158	$ 2,587
Income tax receivable	2,843	969
Contingent earn-outs receivable	5,259	1,359
Other current assets	3,530	3,575
Total current assets	$ 15,790	$ 8,490

Contingent earn-out receivables relate to a 2003 sale lease-back transaction with a third party buyer. The earn-out provisions of the related lease agreements specify certain criteria that must be met to receive the earn-out consideration. Based upon the Company's review of the earn-out performance criteria, the Company believes that these estimates are realizable, however management periodically assesses the recoverability of the recorded balances and adjusts the carrying amount of these assets when necessary. During 2005, an earn-out was reclassified from a long-term receivable to a current receivable as a result of its October 31, 2006 expiration.

(5) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Land and improvements	$ 42,225	$ 26,634
Land held for development	4,301	7,451
Buildings and improvements	534,550	492,309
Furniture, fixtures, and equipment	54,731	50,019
Leasehold improvements	15,532	13,077
	651,339	589,490
Less accumulated depreciation	(122,359)	(98,687)
Construction in progress	22,318	5,494
Total	$ 551,298	$ 496,297

The schedule above includes assets related to nine communities at December 31, 2005 and ten communities at December 31, 2004 that were accounted for as lease financing obligations. At December 31, 2005 and 2004, respectively, the schedule above includes: land improvements of $2.7 million and $1.8 million, buildings and improvements of $182.7 million and $187.6 million, furniture, fixtures, and equipment of $10.2 million and $9.9 million, leasehold improvements of $0.9 million and $0.5 million related to capital lease or lease financing obligations. At December 31, 2005 and 2004, the Company's accumulated depreciation related to these assets totaled $37.0 million and $21.6 million, respectively.

Depreciation expense was $35.8 million, $30.7 million, and $26.4 million for the years ended December 31, 2005, 2004, and 2003, respectively.

(6) Notes Receivable

During 2005, the Company entered into a 15-year management agreement with ASF of Edmond, LLC, an affiliate of American Seniors Foundation (''ASF''), to manage a not-for-profit community in Edmond, Oklahoma that ASF recently acquired.

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The Company facilitated ASF's $9 million acquisition by providing a $6.0 million, 4.5 year senior mortgage loan bearing interest at one month LIBOR plus 4%, and a $4.5 million, 15-year junior mortgage loan bearing interest at 12.5%, both of which are fully collateralized by the assets of the facility. It is ASF's intention to replace the interim financing with permanent tax-exempt financing at the appropriate time. At December 31, 2005, the Company has $9.5 million outstanding under these notes, which approximates current fair value.

On December 12, 2005, the Company entered into a transaction with ASF of Green Hills, LLC, an affiliate of ASF, pursuant to which the Company entered into a management services agreement to manage the development and construction of ASF's rental assisted living community in Nashville, Tennessee, and subsequently manage the operations of the community. ASF's total development cost of the project is estimated to be approximately $32.3 million. The Company agreed to provide certain initial financing to ASF, by providing a $32.3 million loan to ASF, which will be advanced by the Company primarily over the next twelve months. The loan is evidenced by a construction loan agreement and two promissory notes and is secured by a first mortgage lien. A $26.3 million promissory note receivable matures on December 12, 2010 and bears interest at a variable rate equal to one month LIBOR plus 250 basis points. A second $6.1 million promissory note receivable matures on December 12, 2015 and bears interest at 10.5%. Under the promissory notes, ASF is required to make monthly payments of interest only through the scheduled maturity dates. At December 31, 2005, $5.5 was outstanding under these notes receivable from ASF. ASF intends to refinance these notes with long-term tax-exempt financing upon stabilization of the community.

In order to provide this financing to ASF, the Company obtained a $26.3 million construction loan from a commercial bank. The loan matures on December 12, 2010 and bears interest at a variable rate equal to one-month LIBOR plus 225 basis points. The loan is evidenced by a construction loan agreement and promissory note. Under this loan, the Company is required to make monthly payments of interest only through the scheduled maturity date. The loan is secured by a collateral assignment of the ASF loan documents. At December 31, 2005, the Company has $1.7 million outstanding under this loan.

At December 31, 2005, the Company also held a note resulting from a loan to a lessor of a retirement community that is being leased by the Company. This note generally earns interest at a fixed rate of approximately 6%. Interest and principal are due monthly based on a 35 year amortization. The note receivable matures in June 2038 and is secured by the related community. At December 31, 2005, the Company has $18.0 million outstanding under this note, including the current portion, which approximates current fair value.

(7) Leasehold Acquisitions

At December 31, 2005 and 2004, the Company had $21.9 million and $29.4 million, respectively, of net leasehold acquisition costs. The subject leases terminate at various points through August 2018. Leasehold acquisition costs are amortized principally on a straight-line basis over the remaining contractual or expected life of the related lease agreements (generally ten to 15 years, or, if shorter, the expected life of the lease). Accumulated amortization for the years ended December 31, 2005 and 2004 was $9.6 million and $9.4 million, respectively. Amortization expense for the years ended December 31, 2005, 2004 and 2003 was $2.6 million, $2.9 million, and $2.4 million, respectively. The Company assesses the leasehold acquisition costs for impairment based upon the amount of estimated undiscounted future cash flows over the remaining lease terms.

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(8) Other Assets and Joint Ventures

Other assets at December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Investments in and advances to joint ventures	$ 16,616	$ 2,361
Investment in leased communities	9,725	10,160
Nonrefundable purchase options	9,397	9,300
Security deposits	8,780	8,780
Deferred entrance fee receivables	4,648	5,654
Deferred financing costs, net	4,984	1,552
Contingent earn-outs	—	3,900
Long-term prepaid rent	1,323	1,416
Costs of acquiring lifecare contracts, net	1,507	1,755
Other	10,690	10,758
Total	$ 67,670	$ 55,636

During 2004, the Company sold a substantial majority of our interest in the real property underlying two retirement centers and one free-standing assisted living community, while retaining a 10% interest in real estate holding companies that own the three communities. The Company continues to operate the communities under a master lease. This investment in leased communities is accounted for using the equity method.

On November 1, 2005, the Company entered into a joint venture agreement with Senior Housing Partners III (''SHP''). The joint venture is owned 20% by the Company and 80% by SHP, a senior housing affiliate of Prudential Real Estate Investors. Simultaneously, the Company assigned to the joint venture its rights in a purchase agreement for the acquisition of eight senior living communities from an affiliate of Epoch Senior Living, Inc., for a purchase price of $138.0 million plus customary transaction expenses and the assumption of certain operating obligation of the communities. Pursuant to the joint venture agreement, the Company will manage the communities pursuant to a long-term management agreement. The subject communities are located in Arizona (2), Colorado, Georgia, Kansas, Minnesota, Nevada and Texas. At December 31, 2005, the Company's investment in this joint venture was $11.2 million.

The joint venture was capitalized by proportional equity contributions from the Company and SHP, and an $85.0 million term loan obtained from a commercial bank. The loan bears interest at one-month LIBOR plus a 2% margin and requires payments of interest only until its scheduled maturity on October 31, 2010. Beginning on November 1, 2007, the joint venture could be required to commence payment under a 25-year mortgage amortization schedule, if the joint venture fails to maintain certain financial covenants specified in the agreement.

Summary combined unaudited financial information of the Company's joint ventures as of and for the years ended December 31, 2005 and 2004 follows (in thousands):

	2005	2004
Current assets	$ 6,985	$ 920
Land, buildings and equipment, net	148,433	12,751
Other assets	1,949	139
Total assets	$ 157,367	$ 13,810
Current liabilities	$ 9,865	$ 5,257
Long-term liabilities	93,910	12,184
Total liabilities	103,775	17,441
Partners' and members' equity (deficit)	53,592	(3,631)
Total liabilities and partners' and members equity (deficit)	$ 157,367	$ 13,810
Revenues	$ 9,385	$ 4,843
Net loss	(1,393)	(779)

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At December 31, 2005 and 2004, the Company had $16.6 million and $2.4 million, respectively, of investments in and advances to these joint ventures. For the years ended December 31, 2005, 2004, and 2003, respectively, the Company recognized $0, $0.3 million, and $0.5 million of net losses related to these unconsolidated joint ventures.

(9) Secondary Public Offerings and Acquisitions

On January 26, 2005, the Company completed a public offering of 5,175,000 shares of common stock, including the underwriter's over-allotment of 675,000 shares. The shares were priced at $10.25. The net proceeds of the offering, after deducting underwriting discounts and commissions, were approximately $49.9 million.

The Company used the proceeds of its January 26, 2005 secondary offering to make certain debt repayments. During January 2005, the Company repaid in full the balance on a mortgage loan from Health Care Property Investors (HCPI) in the amount of $5.7 million, bearing interest at 9%. In addition, during January 2005, the Company repaid in full the $17.2 million of 9.625% fixed interest-only mortgage notes, issued in 2001, due October 1, 2008.

On February 1, 2005, the Company acquired Galleria Woods, an entrance-fee continuing care retirement community with 207 units, located in Birmingham, Alabama. The Company acquired the community for approximately $5.5 million of cash (including closing costs) plus the assumption of existing entrance-fee refund obligations of approximately $10.4 million, generally repayable from the entrance fees of future residents.

The transaction was accounted for using the ''purchase'' method as required by SFAS No. 141, Business Combinations, and accordingly, the results of operations of the acquired community were included in the Company's consolidated financial statements from the date of acquisition. The cost to acquire Galleria Woods was allocated to the assets acquired and liabilities assumed based on their fair values.

On October 14, 2005, the Company entered into a joint venture agreement with Denver Lowry Senior Housing, LLC (‘‘DLSH’’) to develop and operate a rental continuing care retirement community in Denver, Colorado. The joint venture is owned 20% by the Company and 80% by DLSH, an affiliate of CNL Capital Corp. Pursuant to the joint venture agreement, the Company will act as developer of the $38.0 million project and will manage the community pursuant to a long-term management agreement.

In order to finance construction of the facility, the venture entered into a $25.5 million construction loan with a commercial lender. The loan is evidenced by a loan agreement and a promissory note, and is secured by a first mortgage lien. The loan matures on December 1, 2008, and the joint venture has two one-year extension options. The outstanding principal balance of the loan bears interest at a variable rate equal to LIBOR plus 2.75%. The joint venture will be required to make monthly payments of interest only through the scheduled maturity date. If the joint venture exercises its extension options, it will also be required to make monthly principal payments (based upon a 25 year amortization schedule) during the extension period(s).

The Company also agreed to provide an operating deficits guaranty for the benefit of the lender, pursuant to which the Company may be required to fund certain of the joint venture's operating deficits. In the event that the Company is required to fund any such operating deficits, the amounts so funded will be treated as advances by the Company to the joint venture and will be required to be repaid prior to any other distributions being made to the members of the joint venture.

On January 24, 2006, the Company completed a public offering of 3,450,000 shares (unaudited) of its common stock, including the underwriter's over-allotment of 450,000 shares (unaudited). The shares were priced at $26.60 (unaudited). The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million (unaudited). A portion of the proceeds of this offering were primarily used to repay higher cost debt and fund certain acquisitions during the quarter ended March 31, 2006 (unaudited). The Company expects to use the remainder of the proceeds to fund acquisitions and expansion and development activity, and for general corporate purposes.

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(10) Investments in Joint Ventures (Unaudited)

On February 28, 2006, two newly-formed joint ventures in which the Company has a 20% interest completed the acquisition of four senior living communities from affiliates of Cypress Senior Living, Inc. for an aggregate purchase price of $146.3 million. The communities are located in Arlington, Dallas and Ft. Worth, Texas and Leawood, Kansas.

The two joint venture entities are owned 20% by the Company and 80% by affiliates of CNL Capital Investments Corp. Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., provided the joint ventures with approximately $95.5 million of first mortgage financing for the acquisition, which is evidenced by two credit and security agreements. The Company has also guaranteed debt service payments under first mortgage financing in the event of certain defaults or nonperformance by the counterparty. The debt has a three-year term with two twelve-month extension options and requires the payment of interest only at a floating rate based upon one month LIBOR plus 2.10%. The remainder of the purchase price was funded by proportional capital contributions by the joint venturers. At closing, the Company also entered into long-term management agreements for the communities. The management fees will be included in the company's management services segment.

Although the Company holds a significant variable interest in the joint ventures, it is not considered the primary beneficiary of these entities as defined by FIN No. 46(R). As a result, the Company accounts for its investment under the equity method of accounting. The Company believes its maximum exposure to loss as a result of its involvement with this variable interest entity is approximately $10.8 million at March 31, 2006, which represents its initial contribution into the joint ventures.

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(11) Long-term Debt and Other Transactions

A summary of long-term debt is as follows (in thousands):

	March 31, 2006 (unaudited)	December 31, 2005	December 31, 2004
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various mortgage notes, interest at variable and fixed rates, generally payable monthly with any unpaid principal and interest due between 2006 and 2037. Interest rates at March 31, 2006 (unaudited) and December 31, 2005 range from 6.5% to 9.50%. The loans are secured by certain land, buildings and equipment.	$ 79,949	$ 109,090	$ 109,401
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various construction loans, interest generally payable monthly with unpaid principal due between 2006 and 2009. Variable interest rates at March 31, 2006 and December 31, 2005 range from 7.0% (unaudited) to 9.0% (unaudited) and 4.4% to 8.3%, respectively. The loans are secured by certain real property.	25,046	17,392	—
At March 31, 2006 (unaudited) and December 31, 2005 and 2004 various other long-term debt, generally payable monthly with any unpaid principal and interest due between 2006 and 2018. Variable and fixed interest rates at March 31, 2006 (unaudited) and December 31, 2005 range from 4.7% to 9.0%. The loans are secured by certain land, buildings and equipment.	20,033	20,101	26,555
Subtotal debt	125,028	146,583	135,956
Capital lease and lease financing obligations with principal and interest payable monthly bearing interest at fixed rates ranging from 0.4% to 10.9% at March 31, 2006 (unaudited) and December 31, 2005, respectively, with final payments due between 2006 and 2017. The obligations are secured by certain land, buildings and equipment.	173,227	177,417	199,126
Total debt, including capital lease and lease financing	298,255	324,000	335,082

obligations			
Less current portion of debt	7,437	11,978	10,372
Less current portion of capital lease and lease financing obligations	16,946	16,868	16,474
Long-term debt, excluding current portion	$ 273,872	$ 295,154	$ 308,236

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At March 31, 2006, the aggregate scheduled maturities of long-term debt were as follows (in thousands):

	Long-term Debt (unaudited)	Capital Lease and Lease Financing Obligations (unaudited)	Total Debt at March 31, 2006 (unaudited)
For the twelve months ending March 31, 2007	$ 7,437	$ 16,946	$ 24,383
For the twelve months ending March 31, 2008	9,997	17,524	27,521
For the twelve months ending March 31, 2009	18,753	18,316	37,069
For the twelve months ending March 31, 2010	8,569	19,099	27,668
For the twelve months ending March 31, 2011	25,443	20,048	45,491
Thereafter	54,829	81,294	136,123
	$ 125,028	$ 173,227	$ 298,255

The aggregate scheduled maturities of long-term debt were as follows (in thousands) at December 31, 2005:

	Long-term Debt	Capital Lease and Lease Financing Obligations	Total Debt December 31, 2005
2006	$ 11,978	$ 16,868	$ 28,846
2007	17,317	17,354	34,671
2008	16,905	18,107	35,012
2009	8,783	18,878	27,661
2010	26,470	19,808	46,278
Thereafter	65,130	86,402	151,532
	$ 146,583	$ 177,417	$ 324,000

The Company has various construction loan commitments totaling approximately $54.6 million (unaudited) and $50.6 million that are not reflected in its consolidated financial statements at March 31, 2006 and December 31, 2005, respectively.

On June 29, 2005, the Company obtained a letter of credit facility from a commercial bank. The facility provides for the issuance of up to $10.7 million of standby letters of credit and is collateralized by a mortgage on two of the Company's free-standing assisted living communities. The Company presently has $8.4 million of letters of credit outstanding under this facility, which has an initial term of one year, and can be renewed for two additional one year periods in accordance with its terms. A fee of 1% per annum is payable for any letters of credit issued under the facility. In the event a standby letter of credit is drawn upon, the amount so drawn will bear interest at the prime rate.The letter of credit facility contains certain financial covenants and other restrictions related to certain communities. As a result of this letter of credit facility, the Company released approximately $8.4 million from its restricted cash balance, which was used to repay debt.

At March 31, 2006, the Company had $15.3 million (unaudited) of standby letters of credit issued under a letter of credit facility from a commercial bank which is collateralized by a mortgage on three free standing assisted-living communities. As of March 31, 2006 (unaudited), no amounts have been drawn on these letters of credit.

On January 26, 2006, the Company repaid an $8.9 million (unaudited) loan to a commercial bank bearing interest at a variable rate (7.33% (unaudited) at December 31, 2005), due April 1, 2006 and a $4.5 million (unaudited) mortgage loan bearing interest at a floating rate (6.81% (unaudited) at December 31, 2005), due January 1, 2007. These mortgage loans were secured by first mortgages in substantially all the property and equipment of two free-standing assisted living communities. On February 14, 2006, the Company paid off a $15.2 (unaudited) million mortgage loan bearing interest at 9.25% (unaudited), due September 16, 2016. The loan was secured by a first mortgage in substantially all the property and equipment of a retirement center. The repayment of these loans will

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result in a $1.8 million (unaudited) reduction in interest expense for the year ending December 31, 2006, based on rates in effect at the time of repayment. The Company used a portion of the proceeds of the January 24, 2006 public equity offering to retire these obligations (unaudited).

Earn-outs

At December 31, 2005, approximately $56.4 million of the Company's $177.4 million of lease financing obligations include contingent earn-out provisions under certain leases which expire between March 2006 and October 2006. The contingent earn-out provisions relate to one retirement center and five free-standing assisted living communities. When these provisions expire, the Company's continuing involvement related to the initial sale-leaseback transactions will be relieved and the subject leases will no longer be accounted for as lease financing obligations, but will be accounted for as operating leases. As a result, lease financing obligations, depreciation expense and interest expense will decrease and operating lease obligations and lease expense will increase. At December 31, 2005, the expected reduction of lease financing obligations as a result of these expirations, unless further extended, is:

During the three months ended March 31, 2006	$ 7.3 million
During the three months ended December 31, 2006	46.7 million
	$54.0 million

On December 31, 2005, the earn-out related to an underlying lease of a free standing assisted living community expired. The expiration of this earn-out relieved the Company's continuing involvement and changed the accounting from a lease financing obligation to an operating lease. As a result, fixed assets decreased $5.3 million and lease financing obligations decreased $5.5 million. The net gain of $0.2 million was deferred and recognized over the remaining term of the lease.

During the year ended December 31, 2004, the Company elected to forgo earn-outs related to two free-standing assisted living communities. The expiration of these earn-outs relieved the continuing involvement and changed the accounting from lease financing obligations to operating leases. As a result, fixed assets decreased $12.4 million and lease financing obligations decreased $12.8 million, with the net gain of $0.4 million deferred and recognized over the remaining term of the lease.

Guaranties

At December 31, 2005, the Company guaranteed approximately $18.0 million of mortgage debt that is not reflected on the Company's balance sheet, of which $9.6 million relates to a retirement center which the Company leases and $8.4 million relates to a joint venture which the Company manages. These guaranties require that the Company pay or perform the borrower's obligation. Accordingly, the Company would be required to make any payments, and perform any obligations, if the relevant borrower fails to do so. To date, the Company has not been required to fund any debt guaranties, and at December 31, 2005, the Company does not believe that it will be required to make payments under its current outstanding guaranties. If we were required to fund a debt guaranties, the Company would be entitled to seek indemnity or contribution payments from the borrower and, if applicable, any co-guarantor.

Substantially all of the Company's assets are pledged (including first priority mortgages) to secure its indebtedness. Certain of the Company's indebtedness and lease agreements are cross-collateralized or cross-defaulted. Any default with respect to such obligations could cause the Company's lenders or lessors to declare defaults, accelerate payment obligations or foreclose upon the communities securing such indebtedness or exercise their remedies with respect to such communities, which could have a material adverse effect on the Company. Certain of the Company's debt instruments and leases contain financial and other covenants, typically related to the specific communities financed or leased.

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(12) Operating Leases

As of March 31, 2006 (unaudited) and December 31, 2005, the Company operated 43 of its senior living communities under long-term leases (34 operating leases and nine leases classified as lease financing obligations). Of the 34 operating lease communities, 26 are operated under four master lease agreements, with the remaining communities leased under individual lease agreements. The Company also leases its corporate offices and is obligated under several ground leases for senior living communities. At March 31, 2006 (unaudited), the remaining base lease terms varied from three to nineteen years. At December 31, 2005, the remaining base lease terms varied from two to thirteen years. Many of the leases provide for renewal, extension and purchase options. Many of the leases also provide for graduated lease payments, either based upon fixed rate increases or a specified formula. In addition, several leases have provisions for contingent lease payments based on occupancy levels or other measures. To the extent that lease escalators are dependent on an existing index or rate, lease increases associated with the escalators are accounted for on a straight-line basis over the life of the lease. In addition, a majority of the Company's lease agreements impose certain restrictions or required authorizations for certain changes such as expansions or significant modifications.

Net lease expense for the three months ended March 31, 2006 was $15.3 million (unaudited), which includes lease payments of $17.3 million (unaudited), plus accruals for future lease escalators (straight-line lease expense) of $1.0 million (unaudited), net of the amortization of the deferred gain from prior sale-leasebacks of $3.0 million (unaudited).

Net lease expense for the three months ended March 31, 2005 was $15.5 million (unaudited), which includes lease payments of $17.0 million (unaudited), plus accruals for future lease escalators of $1.5 million (unaudited), net of the amortization of the deferred gain from prior sale-leasebacks of $3.0 million (unaudited).

Future minimum lease payments at March 31, 2006 are as follows (in thousands) (unaudited):

Twelve months ending March 31, 2007	$ 68,687
Twelve months ending March 31, 2008	69,198
Twelve months ending March 31, 2009	68,519
Twelve months ending March 31, 2010	69,567
Twelve months ending March 31, 2011	70,160
Thereafter	338,404
	$ 684,535

Net lease expense for the year ended December 31, 2005 was $60.9 million, which includes lease payments of $67.9 million, plus accruals for future lease escalators dependent upon an existing index or rate (straight-line lease expense) of $4.9 million, net of the amortization of the deferred gain from prior sale-leasebacks of $11.9 million. Total net lease expense was $60.9 million, $60.1 million and $46.5 million for 2005, 2004, and 2003, respectively.

Future minimum lease payments at December 31, 2005 are as follows (in thousands):

2006	$ 68,246
2007	69,291
2008	67,980
2009	69,054
2010	69,829
Thereafter	355,692
	$ 700,092

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The following table provides a summary of operating lease obligations at March 31, 2006 (unaudited) by lessor:

	Future Minimum Lease Payments

	Twelve Months Ending March 31, 2007 (unaudited)	Remaining Lease Term (unaudited)
Master lease agreements for eleven communities. Initial terms ranging from 10 to 15 years, with renewal options for two additional ten year terms.	$ 25,363	$ 218,660
Operating lease agreements for three communities with an initial term of 15 years and renewal options for two additional five year terms or two additional ten year terms.	9,344	126,189
Master lease agreement for nine communities. Initial 12 year term, with renewal options for two additional five year terms.	11,117	83,913
Operating lease agreement for a community which has a 23 year term, with a seven year renewal option. The Company also has an option to purchase the community at the expiration of the lease term at fair market value.	4,344	44,683
Operating lease agreement for a community with an initial term of 15 years with two five year renewal options and a right of first refusal to repurchase the community. The Company previously recorded a deferred gain of $11.7 million on the sale, which is being amortized over the base term of the lease.	3,893	39,372
Master lease agreement for six communities with an initial ten year term, with renewal options for four additional ten year terms.	6,178	34,988
Other lease agreements for three communities, as well as a lease for the home office. Initial terms ranging from eight to 17 years, with various renewal options.	8,448	68,043
Total operating lease obligations	$ 68,687	$ 615,848

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The following table provides a summary of operating lease obligations at December 31, 2005 by lessor:

	Future Minimum Lease Payments	
	Year Ending December 31, 2006	Remaining Lease Term
Master lease agreements for eleven communities. Initial term ranging from 10 to 15 years, with renewal options for two additional ten year terms.	$ 25,063	$ 223,894
Operating lease agreements for three communities with an initial term of 15 years and renewal options for two additional five year terms or two additional ten year terms.	9,294	128,545
	11,085	86,701

Master lease agreement for nine communities. Initial 12 year term, with renewal options for two additional five year terms.		
Operating lease agreement for a community which has a 23 year term, with a seven year renewal option. The Company also has an option to purchase the community at the expiration of the lease term.	4,344	45,768
Operating lease agreement for a community with an initial term of 15 years with two five year renewal options and a right of first refusal to repurchase the community. The Company recorded a deferred gain of $11.7 million on the sale, which is being amortized over the base term of the lease.	3,894	40,346
Master lease agreement for six communities with an initial ten year term, with renewal options for four additional ten year terms.	6,140	36,542
Other lease agreements for three communities, as well as various home office leases. Initial terms ranging from eight to 17 years, with various renewal options.	8,426	70,050
Total operating lease obligations	$ 68,246	$ 631,846

During 2005, the Company purchased the real assets of a retirement center and a free-standing assisted living community which were previously operating pursuant to operating leases. Furthermore, a lease related to an assisted-living community which was previously accounted for as a lease financing obligation was reclassified to an operating lease as a result of the expiration of an earn-out and the Company's continuing involvement in the lease. During 2004, the Company entered into an operating lease agreement for a retirement center, which previously had been owned.

(13) Refundable Entrance Fees and Deferred Entrance Fee Income

Entrance fees related to the residency and care agreements entered into with residents are received at the time of occupancy. The refundable portion of the entrance fee equal to the stated minimum refund percentage is reported as a liability (refundable portion of entrance fees) and is not amortized. The remaining portion of the fee is reported as deferred entrance fee income and is generally amortized into income over the actuarially determined life expectancy of each resident. Entrance fees that are refundable to the resident upon occupation of the unit by the next resident are recorded as deferred entrance fee income and amortized into revenue over the remaining life of the building.

Residency and care agreements may be terminated by residents at any time for any reason with 30 days notice. Generally, a portion of the entrance fee is refundable to the resident or the resident's estate upon termination of the agreement. Since termination of a resident's agreement can result under many contracts in a refund being due in less than one year, the refundable portion of these entrance fees (equal to the stated fixed minimum refund percentage) is recorded on the balance sheet as a current liability. The Company's experience is that payment of these liabilities is offset by subsequent entrance fee sales. The deferred entrance fee income is generally a long-term liability on the balance sheet, except that a portion is shown as a current liability during the early years of a resident's agreement (only until the contractual provisions of the agreement reduce the potential refund to the fixed minimum percentage stated in the agreement). At termination, the refundable

amount is paid to the resident or resident's estate. Payments of such refunds are charged against the resident's deferred entrance fees and refundable portion of entrance fees, and any gain or loss is included in resident and health care services revenue.

Under certain of the Company's residency and health care agreements for its lifecare communities, residents entered into a Master Trust Agreement whereby amounts were paid by the resident into a trust account. These funds were then made available to the related communities in the form of a non-interest bearing loan to provide permanent financing for the related communities and are collateralized by the land, buildings and equipment at the community. As of December 31, 2005, the remaining obligation under the Master Trust Agreements is $27.4 million and is payable monthly based on a 40-year amortization of each resident's balance. The current installment due in 2006, and annually for the subsequent five-year period, is approximately $1.0 million. The annual obligation is reduced as individual residency agreements terminate.

Upon termination of the resident's occupancy under a Master Trust Agreement, the resident or the resident's estate receives a payment of the remaining loan balance from the trust and pays a lifecare fee to the community based on a formula in the residency and health care agreement, not to exceed a specified percentage of the resident's original amount paid to the trust. This lifecare fee is amortized by the Company into revenue on a straight-line basis over the estimated life expectancy of the resident beginning with the date of occupancy by the resident. The amortization of the lifecare fees is included in resident and health care revenue in the consolidated results of operations. At December 31, 2005 and 2004, the Company had accrued $4.6 million and $5.7 million, respectively, as deferred entrance fee receivables which are included as a component of other assets. The Company reports the obligation under the Master Trust Agreements as a refundable portion of entrance fees and deferred entrance fee income based on the applicable residency agreements.

In February 2005, the Company acquired a continuing care retirement community in Birmingham, Alabama. As a result of this acquisition, the Company assumed $9.8 million in deferred entrance fee income and $0.6 million of refundable entrance fee liabilities.

Entrance fee liabilities at December 31, 2005 and 2004, respectively (in thousands) were:

	Master Trust	Other Residency Agreements	Total
At December 31, 2005:			
Other current liabilities	$ 999	—	$ 999
Refundable portion of entrance fees	12,551	72,613	85,164
Deferred entrance fee income–current portion	—	38,407	38,407
Deferred entrance fee income–long-term portion	13,856	108,561	122,417
	$ 27,406	$ 219,581	$ 246,987

	Master Trust	Other Residency Agreements	Total
At December 31, 2004:			
Other current liabilities	$ 1,363	—	$ 1,363
Refundable portion of entrance fees	14,466	64,682	79,148
Deferred entrance fee income–current portion	—	33,800	33,800
Deferred entrance fee income–long-term portion	16,851	94,535	111,386
	$ 32,680	$ 193,017	$ 225,697

The refundable portion of entrance fees is shown on the balance sheet as a current liability. A portion of the deferred entrance fee income is also classified as a current liability during the early years of a resident's agreement. Although these amounts are classified as a current liability based on the agreement terms, the Company expects that, consistent with historical trends, the refund obligations actually paid in any year will be offset by the resale of the vacated apartment units.

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(14) Shareholders' Equity

The Company is authorized to establish and issue, from time to time, up to 5 million shares of no par value preferred stock, in one or more series, with such dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preference as authorized by the Board of Directors. At December 31, 2005 and 2004, no preferred shares had been issued.

On November 18, 1998, the Company's Board of Directors adopted a Shareholders' Rights Plan (the ''Rights Plan'') to protect the interests of the Company's shareholders if the Company is confronted with coercive or unfair takeover tactics by third parties. Pursuant to the Rights Plan, a dividend of one Right for each outstanding share of the Company's Common Stock was issued to shareholders of record on December 7, 1998. Under certain conditions, each Right may be exercised to purchase one one-hundredth of a share of Series A Preferred Stock at an exercise price of $86.25 per Right. Each Right will become exercisable following the tenth day after a person's or group's acquisition of, or commencement of a tender or exchange offer for 15% or more of the Company's Common Stock. If a person or group acquires 15% or more of the Company's Common Stock, each right will entitle its holder (other than the person or group whose action has triggered the exercisability of the Rights) to purchase common stock of either the Company or the acquiring company (depending on the form of the transaction) having a value of twice the exercise price of the Rights. The Rights will also become exercisable in the event of certain mergers or asset sales involving more than 50% of the Company's assets or earning power. The Rights may be redeemed prior to becoming exercisable, subject to approval by the Company's Board of Directors, for $0.001 per Right. The Rights expire on November 18, 2008. The Company has reserved 2,000,000 shares of Series A Preferred Stock for issuance upon exercise of the Rights.

The Company had previously issued Series B Notes which were convertible into shares of the Company's common stock at any time prior to their April 1, 2008 maturity, at the option of the holder, at the conversion price of $2.25 per share. During the year ended December 31, 2003, holders of Series B Notes elected to convert $5.1 million of the $16.0 million of convertible debentures to common stock at the conversion price of $2.25 per share. As a result, the Company issued 2,266,517 shares of common stock. On February 12, 2004, the Company announced that it was electing to redeem $4.5 million in principal amount of its Series B Notes and on March 12, 2004, $27,320 was redeemed at a redemption price of 105% (expressed as a percentage of principal amount), plus accrued but unpaid interest to the redemption date. On April 1, 2004, the Company further announced that it was electing to redeem the remaining $2.1 million principal balance of its Series B Notes and on April 30, 2004, $8,356 was redeemed at a redemption price of 103.5% (expressed as a percentage of principal amount), plus accrued but unpaid interest to the redemption date. As a result of these two redemption notices, holders of Series B Notes elected to convert $10.9 million of Series B Notes into 4,808,898 shares of common stock at the conversion price of $2.25 per share, and as of April 30, 2004, no Series B Notes remained outstanding.

On January 26, 2005, the Company completed a public offering of 5,175,000 shares of its common stock, including the underwriter's over-allotment of 675,000 shares. The shares were priced at $10.25. The net proceeds of the offering, after deducting underwriting discounts and commissions, were approximately $49.9 million.

On January 24, 2006, the Company completed a public offering of 3,450,000 shares (unaudited) of its common stock, including the underwriter's over-allotment of 450,000 shares (unaudited). The shares were priced at $26.60 (unaudited). The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million (unaudited). A portion of the proceeds of this offering were primarily used to repay higher cost debt and fund certain acquisitions during the quarter ended March 31, 2006 (unaudited). The Company expects to use the remainder of the proceeds to fund acquisitions and expansion and development activity, and for general corporate purposes.

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(15) Stock-Based Compensation

Stock Incentive Plan

In 1997, the Company adopted a stock incentive plan (the ‘‘1997 Plan’’) providing for the grant of stock options, stock appreciation rights, restricted stock, and/or other stock-based awards. Pursuant to the 1997 Plan, as amended, or approximately 4.4 million shares of common stock at December 31, 2005, have been issued or reserved under the 1997 Plan.

Restricted Stock

On September 22, 2005, the Company granted certain members of management a total of 277,000 shares of performance-based non-vested stock. The shares underlying the grant will vest in three stand-alone tranches on March 31, 2006, March 31, 2007, and March 31, 2008, subject to continued employment and the Company’s achievement of certain performance targets set for each tranche. The first tranche was subject to ‘‘variable’’ accounting rules under APB 25. As a result, 2005 compensation expense related to the first tranche was recognized and varied with changes in the Company’s stock price. Upon the adoption of SFAS No. 123(R) on January 1, 2006, the Company will expense the remainder of the unvested shares over the vesting term based on grant-date fair values, which are set at the time all key terms, including performance measures, are set for each tranche.

On July 19, 2004, the Company granted certain members of management a total of 440,000 shares of restricted stock. This stock had a $5.95 market value at the date of grant and vests ratably over a period of three years from the grant date, subject only to continued employment. Compensation expense under the grant is ‘‘fixed’’ under the provisions of APB Opinion No. 25 and will be treated similarly upon adoption of the adoption of SFAS No. 123(R) on January 1, 2006. Measured compensation related to the grant totaled $2.6 million which is being amortized as compensation expense over the period of vesting.

For the years ended December 31, 2005, 2004 and 2003, the Company expensed $1.9 million, $0.4 million and $0, respectively, as compensation expense related to the amortization of the restricted stock grants.

Stock Options

The option exercise price and vesting provisions of stock options are fixed when options are granted. The options generally expire ten years from the date of grant and vest over a three-year period. The weighted average fair value of options granted during 2005, 2004 and 2003 was $6.89, $2.40, and $1.02, respectively.

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A summary of the Company's stock option activity, and related information for the years ended December 31, 2005, 2004 and 2003, respectively, is presented below (shares in thousands):

Options	Shares	Average Exercise Price
Outstanding at December 31, 2002	2,127	$ 4.73
Granted	156	2.20
Exercised	—	—
Forfeited	(208)	9.83
Outstanding at December 31, 2003	2,075	$ 3.99
Granted	895	5.20
Exercised	(562)	4.26
Forfeited	(149)	4.66
Outstanding at December 31, 2004	2,259	$ 4.43
Granted	392	14.91
Exercised	(605)	4.21
Forfeited	(109)	7.85
Outstanding at December 31, 2005	1,937	$ 4.43

The following table summarizes information about stock options outstanding at December 31, 2005 (shares in thousands):

Range of Exercise Prices	Number Outstanding	Number Exercisable at December 31, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.650 - 3.000	106	69	7.04	$ 2.25
$3.100 - 3.140	697	697	5.11	3.10
$3.440 - 4.000	54	51	5.57	3.83
$4.900 - 4.900	447	109	8.25	4.90
$4.950 - 7.940	190	95	7.42	5.85
$8.000 - 14.000	98	62	4.41	12.70
$14.110 - 14.110	211	54	9.38	14.11
$14.120 - 19.280	120	23	8.36	16.62
$24.730 - 25.100	14	—	9.91	25.03
$1.650 - 25.100	1,937	1,160	6.84	6.43

There were exercisable options to purchase an aggregate of 1,160,149 shares at a weighted average exercise price of $4.84 per share as of December 31, 2005.

In accordance with SFAS No. 148, pro forma information regarding net income or loss and income or loss per share as disclosed in Note 2(s) to these consolidated financial statements has been determined by the Company using the ‘‘Black-Scholes’’ option pricing model with the following weighted average assumptions for the years ended December 31, 2005, 2004 and 2003, respectively: 3.17%, 1.12% and 1.16% risk-free interest rate, 0% dividend yield, 66.0%, 67.0% and 69.6% volatility rate, and an expected life of the options equal to the remaining vesting period.

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment (SFAS 123(R). This standard revises SFAS No. 123, APB No. 25 and related accounting interpretations, and eliminates the use of the intrinsic value method. The adoption of SFAS 123(R) will have a significant effect on the Company’s statement of operations, which is discussed in Note 2(z) to these consolidated financial statements.

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Associate Stock Purchase Plan

In 1997, the Company adopted an associate stock purchase plan (‘‘ASPP’’) pursuant to which an aggregate of 418,078 shares remain authorized and available for issuance to employees at December 31, 2005. Under the ASPP, employees (excluding officers) who have been employed by the Company continuously for at least 90 days are eligible, subject to certain limitations, as of the first day of any option period (January 1 through June 30, or July 1 through December 31) (an ‘‘Option Period’’) to contribute on an after-tax basis up to 15% of their base pay per pay period through payroll deductions and/or a single lump sum contribution per Option Period to be used to purchase shares of common stock. On the last trading day of each Option Period, the amount contributed by each participant over the course of the Option Period will be used to purchase up to 700 shares of common stock at a purchase price per share equal to 85% of the closing market price of the common stock on the last day of the option Option Period. The ASPP is intended to qualify for favorable tax treatment under Section 423 of the Internal Revenue Code. During 2005, 2004 and 2003, respectively, 127,315, 155,042 and 62,793 shares were issued pursuant to the ASPP at an average purchase price of $15.52, $4.63 and $1.77 per share, respectively.

(16) Executive Officer Incentive Compensation Plans

During 2003 the Board of Directors modified the incentive compensation programs for its senior officers, which reduced the annual incentive opportunity for this group, and added a program that provided a one-time additional incentive opportunity under a multi-year program. During the period beginning in 2003 and ending in 2007, the senior officer group could earn an additional incentive bonus upon achieving certain specified goals regarding improvements in the Company’s capital structure, financial results, or other specified goals. These amounts would be paid out during the quarter following the time the objective is met. During 2004, approximately $2.0 million of additional incentive bonuses were approved by the Company’s Board of Directors and paid during the fourth quarter 2004 as a result of achieving the specified goals related to improvements in the Company’s capital structure.

(17) Retirement Plans

Associates of the Company participate in a savings plan (the ‘‘401(k) Plan’’) which is qualified under Sections 401 (a) and 401(k) of the Code. To be eligible, an associate must have been employed by the Company for at least three months. The 401(k) Plan permits associates to make voluntary contributions up to specified limits. The Company matches 1% of participant contributions, up to 2% of the participant’s monthly compensation. In addition, the Company may make discretionary contributions up to 2% of the participant’s quarterly compensation. The Company may also contribute an additional amount determined in its sole judgment. In 2005, 2004 and 2003, Company contributions totaled approximately $0.9 million, $0.6 million, $0.5 million, respectively.

In September 2004, the Company established a deferred compensation plan which allows a select group of management or highly compensated employees to defer a portion of their cash compensation. Participants voluntarily electing to defer portions of their cash compensation shall be deferred for a minimum of five years or until a separation of service (as defined in the plan). Amounts deferred by each participant are accrued but unfunded by the Company and accrue interest at the prime rate plus one percent per annum, but not less than six percent per annum or greater than ten percent per annum. At December 31, 2005, the deferred amount plus accrued interest is approximately $0.7 million.

In 2004, the Company adopted a supplemental executive retirement plan (SERP) that allows eligible executives to defer a portion of their compensation. Currently, Mr. Sheriff is the only participant in the SERP, and he elected to defer $48,000 of his base salary during 2005 and 2004. The participant directs the investment of these deferred amounts among several available investment funds. Generally, the participant will be entitled to receive the amount of his or her SERP account, upon termination of employment with the Company by death, disability or retirement.

The Company maintains a non-qualified deferred compensation plan (the ‘‘162 Plan’’) which allows associates who are ‘‘highly compensated’’ under IRS guidelines to make after-tax contributions

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to an investment account established in such associates’ name. Additional contributions may be made by the Company at its discretion. All contributions to the 162 Plan are subject to the claims of the Company’s creditors. The Company contributed $42,000 per year on behalf of Mr. Sheriff during 2005, 2004 and 2003.

(18) Income Taxes

Income tax expense for the years ended December 31, 2005, 2004, and 2003 were attributable to income (losses) before income taxes and minority interest and consists of the following (in thousands):

	Years Ended December 31,		
	2005	2004	2003
U.S. Federal:			
Current	$ 5,396	$ 2,955	$ 552
Deferred	(43,239)	—	—
Total U.S. Federal	(37,843)	2,955	552
State:			
Current	621	1,508	464
Deferred	(10,308)	(2,042)	1,645
Total State	(9,687)	(534)	2,109
Total income tax (benefit) expense	$ (47,530)	$ 2,421	$ 2,661

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004 are presented below (in thousands):

	Years Ended December 31,	
	2005	2004
Deferred tax assets:		
Federal and state operating loss carryforwards	$ 4,163	$ 4,642
Deferred gains on sale lease-back transactions	35,775	40,344
Accrued expenses not deductible for tax	2,999	2,770
Intangible assets	4,844	4,609
Asset impairment charges and other losses	468	1,337
Deferred entrance fee revenue	33,312	30,103
Deferred rent	5,464	4,830
Other	2,784	3,267
Total gross deferred tax assets	89,809	91,902
Less valuation allowance	(6,083)	(66,096)
Total deferred tax assets, net of valuation allowance	83,726	25,806
Deferred tax liabilities:		
Buildings and equipment	27,710	22,608
Other	987	1,716
Total gross deferred tax liabilities	28,697	24,324
Net deferred tax asset	$ 55,029	$ 1,482

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The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company’s effective tax rate for financial statement purposes on income (loss) before income taxes and minority interest:

	2005	2004	2003
Statutory tax rate income (loss)	35.0%	(35.0%)	(35.0%)
State income taxes, net of Federal benefit	(27.0%)	(5.3%)	15.2%
Non-deductible expenses and other items	(1.3%)	0.5%	0.7%
Change in Federal valuation allowance	(211.4%)	77.1%	41.9%
Total	(204.7%)	37.3%	22.8%

As of December 31, 2005 and 2004, the Company carried a valuation allowance against deferred tax assets in the amount of $6.1 million and $66.1 million, respectively, a decrease of $60.0 million. In assessing valuation of its deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets related to deductible temporary differences is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In determining when it may meet the ‘‘more likely than not’’ recoverability criteria for its deferred tax assets, the Company will continue to assess its projected future taxable income and other factors.

During 2005, the Company determined that it would reduce its valuation allowance against deferred assets, resulting in a significant tax benefit. This determination was made following a comprehensive analysis and careful consideration of the factors described above and the following attributes:

- the nature and predictable timing of reversal of the subject deferred tax assets and the nature and timing of losses that contributed to the tax valuation allowance,
- the Company's reported positive income from operations, net income and occupancy data,
- senior management's proven ability to reasonably project future operating results, and
- the continued improvement in the Company's capital structure

(19) Segment Information

The Company has significant operations principally in three business segments: (1) retirement centers, (2) free-standing assisted living communities and (3) management services. At March 31, 2006 and December 31, 2005, retirement centers represented 33 (unaudited) and 29 respectively, of the Company's senior living communities at which the Company provides a continuum of care services such as independent living, assisted living, Alzheimer's and skilled nursing care. At March 31, 2006 (unaudited) and December 31, 2005, the Company operated 41 free-standing assisted living communities. Free-standing assisted living communities are generally comprised of stand-alone assisted living communities that are not located on a retirement center campus, which also provide specialized care such as Alzheimer's and memory enhancement programs. Free-standing assisted living communities are generally much smaller than retirement centers. The management services segment includes fees from management agreements for communities owned by others, and reimbursed expense revenues together with associated expenses. At March 31, 2006 (unaudited) and December 31, 2005, the Company had six management agreements with third parties relating to six retirement centers and also operated a seventh retirement center, Freedom Square, under a long-term management agreement. In accordance with applicable accounting rules, the operating results of Freedom Square are included in the consolidated results of the Company's retirement center segment and, accordingly, are not included in the management services segment.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following table sets forth certain segment financial and operating data[1] (in thousands).

	Three Months Ended March 31,		Years Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
Revenues:					
Retirement Centers	$ 98,606	91,046	$ 378,114	347,179	312,723
Free-standing Assisted Living Communities	29,180	25,607	110,269	96,264	83,584
Management Services[2]	3,307	1,302	6,617	4,166	3,670
Total	$ 131,093	117,955	$ 495,000	447,609	399,977

Segment operating contribution:[3]									
Retirement Centers	$	34,255	30,592	$	127,064		116,589		98,837
Free-standing Assisted Living Communities		10,077	7,760		34,815		26,057		16,662
Management Services		1,224	500		3,528		1,882		1,522
Total	$	45,556	38,852	$	165,407		144,528		117,021
Lease expense	$	15,333	15,510	$	60,936	$	60,076	$	46,484
Depreciation and amortization (including general and administrative depreciation and amortization of $364 (unaudited), $943 (unaudited), $1,925, $1,990 and 1,728 respectively)		9,407	9,271		36,392		31,148		26,867
Amortization of leasehold acquisition costs		592	699		2,567		2,917		2,421
(Gain) loss on sale of assets		84	12		709		(41)		(23,153)
General and administrative		9,942	6,591		30,327		28,671		25,410
Income from operations	$	10,198	6,769	$	34,476		21,757		38,992

	March 31, 2006 (unaudited)	December 31, 2005	December 31, 2004
Total Assets:			
Retirement Centers	$ 505,853	$ 521,581	$ 498,132
Free-standing Assisted Living Communities	192,488	188,548	182,353
Management Services	246,740	169,345	68,765
Total	$ 945,081	$ 879,474	$ 749,250

(1)Segment financial and operating data does not include any inter-segment transactions or allocated costs.

(2)Management Services represent the Company’s management fee revenues, reimbursed expense revenue, as well as reimbursed expenses of $3.1 million, $2.3 million, $2.1 million, respectively for the years ended December 31, 2005, 2004 and 2003 and $2.1 million (unaudited) and $0.8 million (unaudited) for the three months ended March 31, 2006 and 2005, respectively.

(3)Segment operating contribution is defined as segment revenues less cost of community service revenue (which includes costs of community service revenue and reimbursed expenses and excludes depreciation).

(20) Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the ultimate liability with respect to those proceedings and claims will not materially affect the financial position, operations, or liquidity of the

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Company. The Company maintains commercial insurance on a claims-made basis for medical malpractice and professional liabilities.

Insurance

The delivery of personal and health care services entails an inherent risk of liability. Participants in the senior living and health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company currently maintains general and professional medical malpractice insurance policies for the Company's owned, leased and certain of its managed communities under a master insurance program. Premiums and deductibles for this insurance coverage have risen dramatically in recent years. In response to these conditions, the Company has significantly increased the staff and resources involved in quality assurance, compliance and risk management during the past several years, and have also modified its insurance programs.

At March 31, 2006 (unaudited) and December 31, 2005, the Company maintained single incident and aggregate liability protection in the amount of $25.0 million for general liability and $15.0 million for professional liability, with self-insured retentions of $1.0 million and $5.0 million, respectively. The Company believes it has adequately accrued amounts to cover open claims not yet settled and incurred but not reported claims as of March 31, 2006 (unaudited) and December 31, 2005. Beginning January 1, 2006, the Company formed a wholly-owned ‘‘captive’’ insurance company for the purpose of insuring certain portions of its risk retention under its general and professional liability insurance programs.

The Company operates under a self-insured workers’ compensation program, with excess loss coverage provided by third party carriers. As of December 31, 2005, the Company’s coverage for workers’ compensation and related programs, excluding Texas, included excess loss in an aggregate amount of $6.3 million, with a deductible amount of $350,000 per claim prior to January 1, 2006 and $500,000 (unaudited) thereafter. As of December 31, 2005, the Company provided cash collateralized letters of credit in the aggregate amount of $8.2 million related to this program, which are reflected as restricted cash on the Company’s consolidated balance sheet. For work-related injuries in Texas, the Company is a non-subscriber under Texas state law, meaning that work-related losses are covered under a defined benefit program outside of the Texas Workers' Compensation system. At March 31, 2006 (unaudited) and December 31, 2005, the Company carried excess loss coverage of $1.0 million per individual, with a deductible of $250,000 per individual under its non-subscriber program. Losses are paid as incurred and estimated losses are accrued on a monthly basis. The Company utilizes a third party administrator to process and pay filed claims.

The Company maintains a self-insurance program for employee medical coverage, with stop-loss insurance coverage of amounts in excess of $250,000 per associate prior to January 1, 2006 and $275,000 (unaudited) thereafter. Estimated costs related to this self-insurance program are accrued based on known claims and projected settlements of unasserted claims incurred but not yet reported to the Company. Subsequent changes in actual experience (including claim costs, claim frequency, and other factors) could result in additional costs to the Company.

During the years ended December 31, 2005, 2004, and 2003, and the three months ended March 31, 2006 and 2005, the Company expensed $17.0 million, $17.2 million, $15.7 million, $3.3 million (unaudited), and $4.2 million (unaudited) respectively, related to premiums, claims and costs for general liability and professional medical malpractice, workers’ compensation, and employee medical insurance related to multiple insurance years.

Management Agreements

The Company’s management agreements are generally for terms of three to 20 years, but certain of the agreements may be canceled by the owner of the community, without cause, on three to six months’ notice. Certain of these management agreements provide the Company with long-term

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renewal options. Pursuant to the management agreements, the Company is generally responsible for providing management personnel, marketing, nursing, resident care and dietary services, accounting and data processing services, and other services for these communities at the owner’s expense and receives a monthly fee for its services based on either a contractually fixed amount, a percentage of revenues or income, or cash flows in excess of operating expenses and certain cash flows of the community. At March 31, 2006, the Company's existing management agreements expire at various times through December 2021 (unaudited). At December 31, 2005, the Company’s existing management agreements expire at various times through August 2020.

In connection with these management agreements, the Company has guaranteed mortgage debt of $8.3 million (unaudited) and $8.4 million at March 31, 2006 and December 31, 2005, respectively, related to a joint venture which the Company manages.

Regulatory Requirements

Federal and state governments regulate various aspects of the Company's business. The development and operation of health care facilities and the provision of health care services are subject to federal, state, and local licensure, certification, and inspection laws that regulate, among other matters, the number of licensed beds, the provision of services, the distribution of pharmaceuticals, billing practices and policies, equipment, staffing (including professional licensing), operating policies and procedures, fire prevention measures, environmental matters, and compliance with building and safety codes. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new patients, suspension or decertification from the Medicare programs, restrictions on the ability to acquire new communities or expand existing communities, and, in extreme cases, the revocation of a community's license or closure of a community. Management believes the Company was in compliance with such federal and state regulations at March 31, 2006 (unaudited) and December 31, 2005.

Other

A portion of the Company’s skilled nursing revenues are attributable to reimbursements under Medicare. Certain per person annual limits on therapy services, which were temporarily effective beginning in September 2003 before being deferred, became effective again as of January 2006. Administrative procedures regarding auto-exceptions to these limits and approval processes for other exceptions by individual are being implemented by Medicare representatives. While we expect that these limits will reduce our therapy revenues from certain residents, we do not expect them to have a significant impact on our overall business. There continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that will limit payments to healthcare providers in the future. Changes in the reimbursement policies of the Medicare program could have an adverse effect on our results of operations and cash flow.

(21) Related Party Transactions

W.E. Sheriff, the Company’s chairman and chief executive officer, owned 50% of Maybrook Realty, Inc., which owned Freedom Plaza Care Center (FPCC), a 128-bed skilled nursing and 44-bed assisted living center, with approximately 7,000 square feet of office space subleased to a third party, in Peoria, Arizona. From October 1999 until June 2001, the Company managed FPCC pursuant to its management agreement for the Freedom Plaza CCRC in Peoria, Arizona. The Company also served as the developer of an expansion of FPCC, which was completed July 2001. Effective July 1, 2001, the Company entered into a long-term operating lease for FPCC in substitution of the prior management arrangement. Total lease payments during 2005 and 2004 under this lease were $1.1 and $2.2 million, respectively. On July 7, 2005, the Company acquired all of the real property interests underlying Freedom Plaza Care Center for $20.3 million.

During 2001 and 2000, the Company acquired leasehold interests in six free-standing assisted living communities owned by affiliates of John Morris, a director of the Company. The Company issued a $7.6 million, 9.625% fixed interest only note, due October 1, 2008. This note, and certain

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similar notes were secured by the Company's interest in a retirement center located in Richmond, Virginia and a free-standing assisted living community in San Antonio, Texas. The terms of this note and its related security instruments were identical to those issued to certain unaffiliated entities in connection with the simultaneous acquisition of certain other communities. This note was fully repaid by the Company with the proceeds of the January 2005 secondary offering.

(22) Subsequent Events

Secondary Equity Offering

On January 24, 2006, the Company completed a public offering of 3,450,000 shares of its common stock, including the underwriter's over-allotment of 450,000 shares. The shares were priced at $26.60. The net proceeds of the offering, after deducting underwriting discounts and commissions and estimated expenses, were approximately $89.8 million. The proceeds from this offering were used to repay approximately $29.0 million of outstanding debt, with the balance to be used to fund possible future acquisitions, to fund expansion activity, and for general corporate purposes, including working capital.

Acquisition of Independent Living Communities

On February 8, 2006, the Company announced that a joint venture in which it has an ownership interest had entered into a definitive asset purchase agreement with affiliates of Cypress Senior Living, Inc. to acquire four senior living communities located in two states for an aggregate purchase price of $146.3 million, subject to customary closing adjustments and transaction expenses. The communities have capacity of 896 independent living units and are located in Arlington, Dallas and Ft. Worth, Texas and Leawood, Kansas.

The acquisition will be accomplished through two joint ventures, which will be owned 20% by the Company and 80% by an institutional real estate investor. The joint venture has obtained a firm commitment from Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., to provide approximately $95.5 million of senior debt financing. The remainder of the purchase price will be funded by proportional capital contributions from the members of the joint venture entities. The Company will manage the portfolio pursuant to a long-term management agreement.

(Unaudited)

On April 1, 2006, the Company completed the acquisition of two retirement centers with a total of 204 units located in Shawnee, Kansas. The Company funded the aggregate cash purchase price of $29.5 million with cash.

(Unaudited)

On March 17, 2006, the Company announced that a joint venture in which it is a member entered into an asset purchase agreement to acquire a 760-unit entry-fee continuing care retirement community located in Bradenton, Florida. The joint venture, which will be owned 20% by the Company, will acquire the community for approximately

$95 million plus the assumption of certain resident refunds. This transaction is expected to close in the second quarter of 2006.

(Unaudited)

On April 27, 2006, the Company announced that it had entered into an agreement to acquire the lessee's interest in a 237-unit retirement center located in Denver, Colorado that the Company currently operates pursuant to a management agreement. Upon the closing of the purchase, the community will convert from a managed community to a leased community, and its operating results will be included in the Company's consolidated financial statements. The expected purchase price of $1.2 million will be funded with cash. This transaction closed in the second quarter of 2006.

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Brookdale Senior Living Inc.

PROSPECTUS

Shares

Common Stock

Goldman, Sachs & Co.
Lehman Brothers
Citigroup
JPMorgan
UBS Investment Bank
Cohen & Steers

Until, 2006 (25 days after the date of this prospectus) all dealers that effect transactions in these securities, whether or not participating in this offering may be required to deliver a prospectus. This is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

, 2006.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the estimated fees and expenses payable by the registrant in connection with the distribution of the common stock:

Securities and Exchange Commission registration fee	$ 96,595
National Association of Securities Dealers, Inc. filing fee	$ 75,500
NYSE listing fee	*
Printing and engraving costs	*
Legal fees and expenses	*
Accountants' fees and expenses	*
Blue sky qualification fees and expenses	*
Transfer agent fees	*
Miscellaneous	*
Total	$ *

*To be furnished by amendment.

Item 14. Indemnification of Directors and Officers

Section 102 of the Delaware General Corporation Law, as amended, or the DGCL, allows a corporation to eliminate the personal liability of directors to a corporation or its stockholders for monetary damages for a breach of a fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase or redemption in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the corporation's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding. The power to indemnify applies if (i) such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (ii) such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense expenses (including attorneys' fees but excluding amounts paid in settlement) actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of his duties to the corporation, unless a court believes that in light of all the circumstances indemnification should apply.

Section 174 of the DGCL provides, among other things, that a director who willfully and negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time the action occurred or immediately after the absent director receives notice of the unlawful acts.

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The Company's amended and restated certificate of incorporation states that no director shall be liable to us or any of our stockholders for monetary damages for breach of fiduciary duty as director, except for breaches of the duty of loyalty, and for acts or omissions in bad faith or involving intentional misconduct or knowing violation of law. A director is also not exempt from liability for any transaction from which he or she derived an improper personal benefit, or for violations of Section 174 of the DGCL. To the maximum extent permitted under Section 145 of the DGCL, our amended and restated certificate of incorporation authorizes us to indemnify any and all persons whom we have the power to indemnify under the law.

Our amended and restated by-laws provide that the Company will indemnify, to the fullest extent permitted by the DGCL, each person who was or is made a party or is threatened to be made a party in any legal proceeding by reason of the fact that he or she is or was a director or officer of the Company or a subsidiary. However, such indemnification is permitted only if such person acted in good faith, lawfully and not against our best interests. Indemnification is authorized on a case-by-case basis by (1) our board of directors by a majority vote of disinterested directors, (2) a committee of the disinterested directors, (3) independent legal counsel in a written opinion if (1) and (2) are not available, or if disinterested directors so direct, or (4) the stockholders. Indemnification of former directors or officers shall be determined by any person authorized to act on the matter on our behalf. Expenses incurred by a director or officer in defending against such legal proceedings are payable before the final disposition of the action, provided that the director or officer undertakes to repay us if it is later determined that he or she is not entitled to indemnification.

Prior to completion of our initial public offering, the Company entered into separate indemnification agreements with each of its directors and officers. Each indemnification agreement provides, among other things, for indemnification to the fullest extent permitted by law and our amended and restated certificate of incorporation and amended and restated by-laws against any and all expenses, judgments, fines, penalties and amounts paid in settlement of any claim. The indemnification agreements provide for the advancement or payment of all expenses to the indemnitee and for reimbursement to us if it is found that such indemnitee is not entitled to such indemnification under applicable law and our amended and restated certificate of incorporation and amended and restated by-laws.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We maintain directors' and officers' liability insurance for our officers and directors.

Item 15. Recent Sales of Unregistered Securities

The following is a summary of transactions by us involving sales of our securities that were not registered under the Securities Act during the last three years preceding the date of this registration statement. Each of the following transactions were private transactions entered into in connection with the formation transactions described in ''Business—History'' and were exempt from registration under the Securities Act by virtue of the exemption provided under Section 4(2) of the Securities Act. In September 2005:

- A wholly-owned subsidiary of ours merged with and into BLC. In connection with the merger, FBA, an affiliate of Capital Z Partners, and certain members of our management, including our chief executive officer, received an aggregate of 20,000,000 shares of our common stock, representing 34.5% of our outstanding common stock prior to our initial public offering, for all of their outstanding common stock of BLC or membership interests in FBA, as applicable. As a result of the merger, BLC became our wholly-owned subsidiary.
- FEBC-ALT Investors purchased from Fortress Investment Trust II, a fund managed by an affiliate of Fortress, all of the outstanding membership interests of FIT REN, which had recently acquired certain senior living facilities from Prudential Financial, Inc., for an aggregate purchase price of approximately $282.4 million (including the assumption of approximately $171.0 million

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of debt). Immediately after the purchase, the membership interests of FIT REN were contributed to Alterra. As a result FIT REN became a wholly-owned subsidiary of Alterra and Fortress Investment Trust II became a member of FEBC-ALT Investors, Alterra's indirect parent company. In connection with the merger of FEBC-ALT Investors described below, Fortress Investment Trust II received 11,750,000 shares of our common stock, representing 20.3% of our outstanding common stock prior to our initial public offering, for its interest in FIT REN.
- A wholly-owned subsidiary of ours merged with and into FEBC-ALT Investors, Alterra's indirect parent company. In the merger, FIT-ALT Investor, Fortress Investment Trust II, Emeritus, NW Select and certain members of our management, each of which was a member of FEBC-ALT Investors, received an aggregate of 29,750,000 shares of our common stock, representing 51.3% of our outstanding common stock prior to our initial public offering, for all of the outstanding membership interests of FEBC-ALT Investors. FIT-ALT Investor is a fund managed by an affiliate of Fortress. As a result of the merger, Alterra became our wholly-owned subsidiary.
- A wholly-owned subsidiary of ours merged with and into Fortress CCRC. In the merger, Fortress Investment Trust II received an aggregate of 8,250,000 shares of our common stock, representing 14.2% of our outstanding common stock prior to our initial public offering, for all of the outstanding membership interests of Fortress CCRC. Fortress CCRC owns, through its wholly-owned subsidiaries, six senior living facilities. As a result of the merger, Fortress CCRC became our wholly-owned subsidiary.

In addition, on August 5, 2005 and September 14, 2005, BLC granted an aggregate of 988 shares of its stock and FEBC-ALT Investors granted 3.33% of its membership interests, to certain members of our management, which shares, other than those shares described below, and percentage interests are subject to substantial risk of forfeiture until the occurrence of certain events, as specified in the applicable restricted stock or restricted securities award agreements. Of the 988 shares of BLC stock granted, 25 shares were granted to Paul Froning, a member of our management, in exchange for a cash payment to BLC by Mr. Froning of $500,000. These 25 shares are fully vested and are not subject to risk of forfeiture. In accordance with the terms of the plans, a portion of these securities will no longer be subject to a risk of forfeiture upon the consummation of this offering. In addition, the remaining securities will vest over a five-year period following the issuance if the executive remains continuously employed by the Company. Securities that are subject to a risk of forfeiture may not be sold or transferred. See ''Business —Equity Incentive Plans—Employee Restricted Stock Plans.'' In connection with the merger transactions described in above, these shares and membership interests were automatically converted into an aggregate of 2,575,405 shares of our common stock, representing 4.4% of our outstanding common stock prior to our initial public offering. A portion of these grants were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) and the remainder of these grants were exempt from the registration requirements of the Securities Act pursuant to Rule 701.

Item 15A.

On May 12, 2006, in connection with the ARC Merger, we entered into an Investment Agreement pursuant to which we will issue on the closing of the ARC Merger to the Investor up to 17,600,867 shares of our common stock for a purchase price up to $1.3 billion. We expect these shares to be issued in a private transaction exempt from registration under the Securities Act by virtue of the exemption provided under Section 4(2) of the Securities Act. For more details on the ARC Merger and the Investment Agreement, please see ‘‘Business—ARC Merger.’’

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Item 16. Exhibits and Financial Statement Schedules

A. Exhibits

Exhibit No.	Description
1.1**	Form of Underwriting Agreement
2.1.1	Asset Purchase Agreement, dated as of September 3, 2004, by and among Fortress CCRC Acquisition LLC, as purchaser, Fortress Investment Fund II LLC, as guarantor, and The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities, as sellers (incorporated by reference to Exhibit 2.2.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.2	Letter Agreement, dated March 9, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition LLC and Fortress Investment Fund II LLC, regarding amendment of the Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.3	Letter Agreement dated April 6, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition, LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.4	Letter Agreement, dated April 14, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress NBA Acquisition LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.5	Supplemental Agreement with Respect to the Asset Purchase Agreement, dated as of September 30, 2004, by and among Fortress CCRC Acquisition LLC, Fortress Investment Fund II LLC, The National Benevolent Association of the Christian Church (Disciples of

	Christ) and certain of its affiliated entities and the Official Committee of Residents appointed in Chapter 11 Case of The National Benevolent Association of the Christian Church (Disciples of Christ) (incorporated by reference to Exhibit 2.2.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.1	Purchase and Sale Agreement, dated March 16, 2005, by and among SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; SHP Ocean House, LLC, as sellers, and FIT REN LLC, as purchaser ((incorporated by reference to Exhibit 2.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.2	First Amendment to Purchase and Sale Agreement, dated June 10, 2005, by and between SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; and SHP Ocean House, LLC, as seller, and FIT REN LLC, as buyer (incorporated by reference to Exhibit 2.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.3	Membership Interest Purchase Agreement (Creve Coeur), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
2.4	Stock Purchase Agreement (Raleigh), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.5	Stock Purchase Agreement (Glen Ellyn), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.9 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.6	Membership Interest Purchase Agreement (Trillium Place), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.10 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.7	Membership Interest Purchase Agreement (Battery Park), dated as of December 1, 2005, between Brookdale Development, LLC and Alliance Holdings Inc. (incorporated by reference to Exhibit 2.7 to the Company's Annual Report on Form 10-K filed on March 31, 2006)
2.8	Membership Interest Purchase Agreement, dated June 29, 2005, by and among NW Select LLC, Emeritus Corporation, FIT-ALT Investor LLC and Brookdale Senior Living Inc. (incorporated by reference to Exhibit 2.11 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.9*	Conveyance Agreement, dated as of September 30, 2005, by and among Brookdale Senior Living Inc., Brookdale Living Communities, Inc., BSL Brookdale Merger Inc., BSL CCRC

	Merger Inc., BSL FEBC Merger Inc., Emeritus Corporation, FEBC-ALT Investors LLC, FIT-ALT Investor LLC, Fortress CCRC Acquisition LLC, Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Acquisition LLC, Health Partners and NW Select LLC (incorporated by reference to Exhibit 2.12 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
2.10*	Amended and Restated Agreement and Plan of Merger, dated March 30,2 006, by and between BLC Acquisitions, Inc., SALI Merger Sub Inc., and Southern Assisted Living, Inc. (incorporated by reference to Exhibit 2.10 to the Company's Annual Report on Form 10-K filed on March 31, 2006.
2.11*	Stock Purchase Agreement, dated December 30, 2005, by and between Brookdale Communities, Inc. and Capstead Mortgage Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 30, 2005).
2.12*	Asset Purchase Agreement, dated January 11, 2006, by and between BLC Acquisitions, Inc., as buyer, and Health Care Properties I, LLC; Health Care Properties IV, LLC; Health Care Properties VI, LLC; Health Care Properties VII, LLC; Health Care Properties VIII, LLC; Health Care Properties IX, LLC; Health Care Properties X, LLC; Health Care Properties XI, LLC; Health Care Properties XII, LLC; Health Care Properties XIII, LLC; Health Care Properties XV, Ltd.; Health Care Properties XVI, LLC; Health Care Properties XVII, Ltd.; Health Care Properties XVIII, LLC; Health Care Properties XX, LLC; Health Care Properties XXIII, LLC; Health Care Properties XXIV, LLC; Health Care Properties XXV, LLC; Health Care Properties XXVII, LLC; Cleveland Health Care Investors, LLC; and Wellington SPE, LLC, as sellers (incorporated by reference to Exhibit 2.12 to the Company's Annual Report on Form 10-K filed on March 31, 2006).

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Exhibit No.	Description
2 .13*	Asset Purchase Agreement, dated January 12, 2006, by and between AHC Acquisitions, Inc., as buyer, and American Senior Living Limited Partnership; American Senior Living of Fort Walton Beach, FL, LLC; American Senior Living of Jacksonville, LLC; American Senior Living of Jacksonville-SNF, LLC; American Senior Living of Titusville, FL, LLC; ASL Senior Housing, LLC; American Senior Living of Destin, FL, LLC; and American Senior Living of New Port Richey, FL, LLC, as sellers. (incorporated by reference to Exhibit 2.13 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .14*	Purchase and Sale Agreement, dated as of February 7, 2006, among BLC Acquisitions, Inc., as buyer, and PG Santa Monica Senior Housing, LP; PG Tarzana Senior Housing, LP; PG Chino Senior Housing, LP; The Fairways Senior Housing, LLC; AEW/Careage— Federal Way, LLC; AEW/Careage—Bakersfield, LLC; and AEW/Careage—Bakersfield SNF, LLC, as sellers (incorporated by reference to Exhibit 2.14 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .15*	Agreement and Plan of Merger, dated as of May 12, 2006, by and among Brookdale Senior Living Inc., Beta Merger Sub Corporation, and American Retirement Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
3 .1	

	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
3 .2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
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. 2) (No. 333-127372) filed on October 11, 2005).
4 .2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners. (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
5 .1**	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP relating to the validity of the common stock.
10.1.1	Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.1.2	Letter Agreement, dated March 28, 2005, regarding the Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.2	Guaranty of Agreement Regarding Leases, dated October 19, 2004, by Brookdale Living Communities, Inc., in favor of PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.3.1	Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.3.2	Letter Agreement, dated March 28, 2005, amending the Tax Matters Agreement, dated as of June 18, 2004, by and among Fortress Brookdale Acquisition LLC, Provident Senior Living Trust and Brookdale Living Communities, Inc., related to the Brookdale Agreement Regarding Leases (incorporated by reference to Exhibit 10.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.1	Master Lease Agreement, dated January 28, 2004, between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC and BLC Fort Myers-GC, LLC (incorporated by reference to Exhibit 10.4.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.2	First Amendment to Master Lease Agreement, dated February 20, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC;

	BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; and BLC Tavares-GC, LLC (incorporated by reference to Exhibit 10.4.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.3	Second Amendment to Master Lease Agreement, dated March 30, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; and BLC Overland Park-GC, LLC (incorporated by reference to Exhibit 10.4.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.4	Third Amendment to Master Lease Agreement, dated May 13, 2004, by and between Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC; and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.5	Fourth Amendment to Master Lease Agreement, dated October 19, 2004, by and among Ventas Realty, Limited Partnership; BLC Adrian-GC, LLC; BLC Albuquerque-GC, LLC; BLC Dayton-GC, LLC; BLC Fort Myers-GC, LLC; BLC Bristol-GC, LLC; BLC Tavares-GC, LLC; BLC Las Vegas-GC, LLC; BLC Lubbock-GC, L.P.; BLC Overland Park-GC, LLC; and Brookdale Living Communities of Illinois-GV, LLC (incorporated by reference to Exhibit 10.4.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.4.6	Fifth Amendment to Master Lease Agreement, dated May 18, 2005, effective as of April 30, 2005, by and between Ventas Realty, Limited Partnership, BLC Adrian-GC, LLC, BLC Albuquerque-GC, LLC, BLC Dayton-GC, LLC, BLC Fort Myers-GC, LLC, BLC Bristol-GC, LLC, BLC Tavares-GC, LLC, BLC Las Vegas-GC, LLC, BLC Lubbock-GC, L.P., BLC Overland Park-GC, LLC, Brookdale Living Communities Of Illinois-GV, LLC, BLC Belleville-GC, LLC, BLC Findlay-GC, LLC, and BLC Springfield-GC, LLC (incorporated by reference to Exhibit 10.4.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.5	Form of Property Lease Agreement with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.6	Form of Lease Guaranty with respect to the Provident-Brookdale properties (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.7.1	Guaranty of Lease, dated as of January 28, 2004, by Brookdale Living Communities, Inc., for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.2	

	First Amendment to Guaranty of Lease, dated as of February 20, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.3	Second Amendment to Guaranty of Lease, dated as of February 26, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.7.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.4	Third Amendment to Guaranty of Lease, dated as of March 10, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership and Ventas Kansas City I, LLC (incorporated by reference to Exhibit 10.7.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.5	Fourth Amendment to Guaranty of Lease, dated as of March 30, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.6	Fifth Amendment to Guaranty of Lease, dated as of May 13, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Farmington Hills, LLC; and Ventas Springfield/Findlay, LLC (incorporated by reference to Exhibit 10.7.6 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.7	Sixth Amendment to Guaranty of Lease, dated as of June 18, 2004, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.7.8	Seventh Amendment to Guaranty of Lease, dated as of April 30, 2005, by Brookdale Living Communities, Inc. for the benefit of Ventas Realty, Limited Partnership; Ventas Kansas City I, LLC; Ventas Belleville, LLC; Ventas Springfield/Findlay, LLC; and Ventas Farmington Hills, LLC (incorporated by reference to Exhibit 10.7.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.8	Amended and Restated Limited Liability Company Agreement of Brookdale Senior Housing, LLC, dated October 19, 2004, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.9	Master Agreement regarding Brookdale Senior Housing, LLC and related matters, dated September 30, 2003, by and among The Northwestern Mutual Life Insurance Company, Brookdale Senior Housing, LLC, AH Michigan Owner Limited Partnership, AH Pennsylvania Owner Limited Partnership, AH Texas Owner Limited Partnership and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	
10.10	Guarantee, dated September 30, 2003, by Brookdale Living Communities, Inc. on behalf of AH Pennsylvania Owner Limited Partnership and AH Michigan Owner Limited Partnership (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.11	Guarantee, dated September 30, 2003, by AH Pennsylvania Owner Limited Partnership, in favor of Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.12	Southfield Guarantee of Recourse Obligations (Single Guarantor), dated September 30, 2003, by Brookdale Living Communities, Inc. in connection with the loan made by Northwestern Mutual Life Insurance Company to Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.13	Guarantee of Member Obligations, dated September 30, 2003, among The Northwestern Mutual Life Insurance Company, AH Michigan Owner Limited Partnership, and AH Pennsylvania Owner Limited Partnership for Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.14	Devonshire First Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.15	Devonshire Second Open-End Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.16	Southfield First Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.17	Southfield Second Mortgage and Security Agreement, dated September 30, 2003, between Brookdale Senior Housing, LLC and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.18	Gaines Ranch First Deed of Trust and Security Agreement, dated September 30, 2003, between AH Texas Owner Limited Partnership, Henry F. Lange, and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.19	Gaines Ranch Second Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange, and Brookdale Senior Housing, LLC (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.20	Gaines Ranch Third Deed of Trust and Security Agreement, dated September 30, 2003, among AH Texas Owner Limited Partnership, Henry F. Lange and The Northwestern Mutual Life Insurance Company (incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.21	Loan Agreement, dated March 30, 2005, among AH Battery Park Owner, LLC, KG Missouri-CC Owner, LLC, AH Illinois Owner, LLC, AH North Carolina, Owner, LLC, AH Ohio-Columbus Owner, LLC, Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.22	Guaranty, dated March 30, 2005, among Brookdale Living Communities, Inc., Guarantee Bank, GMAC Commercial Mortgage Corporation and GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.31 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.1	Loan Agreement, dated October 19, 2004, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.2	Amendment No. 1 to Loan Agreement, dated March 1, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.3	Amendment No. 2 to Loan Agreement, dated March 24, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.23.4	Amendment No. 3 to Loan Agreement, dated May 26, 2005, between LaSalle National Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.32.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.24	Agreement for Management Services, dated July 13, 2004, effective as of August 1, 2004 by and between Cyprus Senior Management Services Limited Partnership and Brookdale Cyprus Management LLC (incorporated by reference to Exhibit 10.33 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.25	Loan Agreement, dated as of April 6, 2005, among General Electric Capital Corporation, Merrill Lynch Capital, FIT NBA Cypress Village LLC, FIT NBA Foxwood Springs LLC, FIT NBA Kansas Christian LLC, FIT NBA Patriot Heights LP, FIT NBA Ramsey LLC, FIT NBA Robin Run LP, and FIT NBA Skyline LLC (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.26	Assumption Agreement, dated September 30, 2005, by FIT Cypress Village LLC (F/K/A FIT NBA Cypress Village LLC), FIT Foxwood Springs LLC (F/K/A FIT NBA Foxwood Springs LLC), FIT Patriot Heights LP (F/K/A FIT NBA Patriot Heights LP), FIT Ramsey LLC (F/K/A FIT NBA Ramsey LLC), FIT Robin Run LP (F/K/A FIT NBA Robin Run LP), and FIT Skyline LLC (F/K/A FIT NBA Skyline LLC), Fortress Investment Trust II, Brookdale Senior Living Inc., Fortress CCRC Acquisition LLC (F/K/A Fortress NBA Acquisition, LLC), FIT Patriot Heights GP, Inc. (F/K/A FIT NBA Patriot Heights GP, Inc.), FIT Robin Run GP, Inc. (F/K/A FIT NBA Robin Run GP, Inc.), BLC-Cypress Village, LLC, BLC-Foxwood Springs, LLC, BLC-Ramsey, LLC, BLC-Village At Skyline, LLC, BLC-Patriot Heights, L.P., BLC-Robin Run, L.P., General Electric Capital

	Corporation, and Merrill Lynch Capital (incorporated by reference to Exhibit 10.35 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.27	Loan Agreement, dated December 31, 2004, by and between AHC Purchaser, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.28	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation and AHC Purchaser Holding, Inc. for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.37 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.29	Loan Agreement, dated as of December 31, 2004, by and between AHC Purchaser Holding II, Inc. and Merrill Lynch Capital (incorporated by reference to Exhibit 10.38 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.30	Guaranty, dated as of December 31, 2004, by Alterra Healthcare Corporation for the benefit of Merrill Lynch Capital (incorporated by reference to Exhibit 10.39 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.31	Cross-Collateralization, Cross-Default and Cross-Guaranty Agreement, dated May 31, 2005, among AHC Purchaser, Inc., AHC Purchaser Holding II, Inc., Alterra Healthcare Corp., Ithaca Bundy Tenant, Inc., Ithaca Sterling Cottage Operator, Inc., Niagara Sterling Cottage Operator, Inc., Niagara Nash Tenant, Inc., and Clinton Sterling Cottage Operator, Inc., AHC Purchaser Holding, Inc. and Alternative Living Services—New York, Inc., and Merrill Lynch Capital (incorporated by reference to Exhibit 10.40 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.32*	Second Amended and Restated Master Lease Agreement, dated as of April 7, 2006, among Health Care REIT, Inc., HCRI North Carolina Properties III, Limited Partnership, HCRI Tennessee Properties, INC., HCRI Indiana Properties, LLC, HCRI Wisconsin Properties, LLC, and HCRI Texas Properties, Ltd., and Alterra Healthcare Corporation.
10.33.1	Master Lease, dated as of April 9, 2002, by and between Alterra Healthcare Corporation and Nationwide Health Properties, Inc. and its affiliates (incorporated by reference to Exhibit 10.42.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.2	First Amendment to Master Lease and Consent to Transfer, dated as of December 2, 2003, by and among Alterra Healthcare Corporation; Nationwide Health Properties, Inc.; NHP Texas Properties Limited Partnership; MLD Delaware trust; MLD Properties, LLC; NHP Silverwood Investments, Inc.; and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.33.3	Second Amendment to Master Lease, dated as of June 28, 2005, by and among Alterra Healthcare Corporation and Nationwide Health Properties, Inc., NH Texas Properties Limited Partnership, MLD Delaware Trust, MLD Properties, LLC, NHP Silverwood

	Investments, Inc., and NHP Westwood Investments, Inc. (incorporated by reference to Exhibit 10.42.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.34.1	Master Lease, dated as of April 9, 2002, by and among JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., ALS Leasing, Inc. and Assisted Living Properties, Inc. (incorporated by reference to Exhibit 10.43.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.34.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated as of September 12, 2003, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.34.3	Second Amendment to Master Lease, dated as of February 23, 2004, by and among ALS Leasing, Inc., Assisted Living Properties, Inc., JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, LP, JER/NHP Senior Living Wisconsin, LLC, JER/NHP Senior Living Kansas, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.43.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.35	Guaranty of Lease and Letter of Credit Agreement dated as of April 9, 2002 by and among Alterra Healthcare Corporation, JER/NHP Senior Living Acquisition, LLC, JER/NHP Senior Living Texas, L.P., JER/NHP Senior Living Wisconsin, LLC, and JER/NHP Senior Living Kansas, Inc. (incorporated by reference to Exhibit 10.44 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.1	Master Lease (Alterra Pool 2), dated as of October 7, 2002, by and between JER/NHP Senior Living Acquisition, LLC and ALS Leasing, Inc. (incorporated by reference to Exhibit 10.45.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.36.2	First Amendment to Master Lease, Affirmation of Guaranty and Consent to Transfer, dated September 12, 2003, by and among ALS Leasing, Inc., JER/NHP Senior Living Acquisition, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.45.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.37	Guaranty of Lease and Letter of Credit Agreement, dated as of October 7, 2002, by and between Alterra Healthcare Corporation and JER/NHP Senior Living Acquisition, LLC (incorporated by reference to Exhibit 10.46 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.38	Amended and Restated Lease, dated December 15, 2002, between LTC-K1 Inc., as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.47 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9,

	2005).
10.39	Amended and Restated Lease, dated December 15, 2002, between LTC-K2 Limited Partnership, as lessor and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.48 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.40	Master Lease Agreement, dated December 15, 2002, between Kansas-LTC Corporation, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.49 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.41	Master Lease Agreement, dated December 15, 2002 among LTC Properties, Inc., Texas-LTC Limited Partnership, and North Carolina Real Estate Investments, LLC, as lessor, and Alterra Healthcare Corporation, as lessee (incorporated by reference to Exhibit 10.50 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.42.1	Lease Agreement, dated as of February 28, 2003, by AHC Trailside, Inc. in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.42.2	First Amendment to Lease Agreement, dated as of December 4, 2003, by and between AHC Trailside, Inc., and SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.51.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.43.1	Guaranty Agreement, dated as of February 28, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.43.2	First Amendment to Guaranty Agreement, dated as of December 4, 2003, by Alterra Healthcare Corporation in favor of SNH ALT Leased Properties Trust (incorporated by reference to Exhibit 10.52.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.44	Tri-Party Agreement, dated December 4, 2003, by and among SNH ALT Mortgaged Properties Trust, SNH ALT Leased Properties Trust, FIT-ALT SNH Loan LLC, Pomacy Corporation, AHC Trailside, Inc., and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.53 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.1	Property Lease Agreement, dated October 20, 2004, by and between PSLT-ALS Properties I, LLC, and ALS Properties Tenant I, LLC (incorporated by reference to Exhibit 10.54.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.45.2	Amended and Restated Property Lease Agreement, dated as of December 16, 2004, by and between PSLT-ALS Properties II, LLC and ALS Properties Tenant II, LLC (incorporated by reference to Exhibit 10.54.2 to the Company's Registration Statement on Form S-1 (No.

	333-127372) filed on August 9, 2005).
10.46	Sublease Agreement, dated October 21, 2004, by and between ALS Properties Tenant I, LLC and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.55 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.47	Agreement Regarding Leases, dated October 20, 2004, by and between ALS Properties Holding Company, LLC and PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.56 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.48	Guaranty of Agreement Regarding Leases, dated October 20, 2004, by Alterra Healthcare Corporation in favor of PSLT-ALS Properties Holdings, LLC (incorporated by reference to Exhibit 10.57 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.49	Form of Property Lease Agreement with respect to the Provident-Alterra properties (incorporated by reference to Exhibit 10.58 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.50	Form of Lease Guaranty with respect to the Provident-Alterra Properties (incorporated by reference to Exhibit 10.59 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Park LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.60.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.2	Multifamily Note in the amount of $22,545,000, dated June 21, 2005, from FIT REN Park, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.51.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.60.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.51.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Park LP and Fannie Mae (incorporated by reference to Exhibit 10.60.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.52.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Nohl Ranch LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.61.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

10.52.2	Multifamily Note in the amount of $7,920,000, dated June 21, 2005, from FIT REN Nohl Ranch, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.61.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.52.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Nohl Ranch LP and Fannie Mae (incorporated by reference to Exhibit 10.61.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.53.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Mirage Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.62.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.2	Multifamily Note in the amount of $15,000,000, dated June 21, 2005, from FIT REN Mirage Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.62.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.53.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Mirage Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.62.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

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Exhibit No.	Description
10.54.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Pacific Inn LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.63.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.2	Multifamily Note in the amount of $25,775,000, dated June 21, 2005, from FIT REN Pacific Inn, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.63.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to

	Exhibit 10.63.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.54.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Pacific Inn LP and Fannie Mae (incorporated by reference to Exhibit 10.63.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.55.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Gables LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.64.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.2	Multifamily Note in the amount of $5,255,000, dated June 21, 2005, from FIT REN The Gables, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.64.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.55.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Gables LP and Fannie Mae (incorporated by reference to Exhibit 10.64.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.56.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN The Lexington LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.65.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.2	Multifamily Note in the amount of $10,867,974.00, dated June 21, 2005 from FIT REN The Lexington, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
10.56.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.65.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.56.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN The Lexington LP and Fannie Mae (incorporated by reference to Exhibit 10.65.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No.

	333-127372) filed on October 11, 2005).
10.57.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Oak Tree LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.66.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.2	Multifamily Note in the amount of $23,305,026, dated June 21, 2005, from FIT REN Oak Tree, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.66.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.66.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.57.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Oak Tree LP and Fannie Mae (incorporated by reference to Exhibit 10.66.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.58.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated June 21, 2005, by FIT REN Paulin Creek LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.67.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.2	Multifamily Note in the amount of $40,732,000, dated June 21, 2005, from FIT REN Paulin Creek, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.3	Exceptions to Non Recourse Guaranty, dated June 21, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.67.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.58.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Paulin Creek LP and Fannie Mae (incorporated by reference to Exhibit 10.67.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).

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Exhibit No.	Description
10.59.1	Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (California), dated July 22, 2005, by FIT REN Ocean House LP, as borrower, to Fidelity National Title Company, as trustee, for the benefit of GMAC Commercial Mortgage Bank, as lender (incorporated by reference to Exhibit 10.68.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

10.59.2	Multifamily Note in the amount of $19,600,000, dated July 22, 2005, from FIT REN Ocean House, LP to GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.3	Exceptions to Non Recourse Guaranty, dated July 22, 2005, by Fortress Investment Trust II for the benefit of GMAC Commercial Mortgage Bank (incorporated by reference to Exhibit 10.68.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.59.4	Consent to Transfer and Release Agreement, dated September 30, 2005, by and among Fortress Investment Trust II, Alterra Healthcare Corporation, Brookdale Senior Living Inc., FIT REN Ocean House LP and Fannie Mae (incorporated by reference to Exhibit 10.68.4 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
10.60	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.69 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.61	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., Alterra Healthcare Corporation and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.70 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.62	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.71 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.63	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.72 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.64	Employment Agreement dated September 8, 2005, by and between Brookdale Senior Living Inc., a Delaware corporation, Alterra Healthcare Corporation and Kristin A. Ferge (incorporated by reference to Exhibit 10.73 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.65	Employment Agreement dated August 9, 2005, by and between Brookdale Senior Living Inc., Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.74 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.66	Brookdale Living Communities, Inc. Employee Restricted Stock Plan (incorporated by reference to Exhibit 10.75 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.67	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Mark J. Schulte (incorporated by reference to Exhibit 10.76 to the Company's

	Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.68	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and John P. Rijos (incorporated by reference to Exhibit 10.77 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.69	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and R. Stanley Young (incorporated by reference to Exhibit 10.78 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.70	Award Agreement dated August 9, 2005, by and between Brookdale Living Communities, Inc. and Deborah C. Paskin (incorporated by reference to Exhibit 10.79 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.71	FEBC-ALT Investors LLC Employee Restricted Securities Plan (incorporated by reference to Exhibit 10.80 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.72	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Mark W. Ohlendorf (incorporated by reference to Exhibit 10.81 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.73	Award Agreement dated August 9, 2005, by and between FEBC-ALT Investors LLC and Kristin A. Ferge (incorporated by reference to Exhibit 10.82 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.1	ISDA Master Agreement, dated as of December 3, 2004, between Merrill Lynch Capital Services, Inc. and Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.2	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.3	Confirmation Letter, dated December 3, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.74.4	Confirmation Letter, dated December 8, 2004, from Merrill Lynch Capital Services, Inc. to Fortress NBA Acquisition LLC (incorporated by reference to Exhibit 10.83.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.75.1	ISDA Master Agreement, dated as of March 18, 2005, between Merrill Lynch Capital Services, Inc. and Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).

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Exhibit No.	Description
10.75.2	Confirmation Letter, dated March 28, 2005, from Merrill Lynch Capital Services, Inc. to Alterra Healthcare Corporation (incorporated by reference to Exhibit 10.84.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.1	ISDA Master Agreement, dated as of March 18, 2005, between LaSalle Bank National Association and Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.1 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.2	Confirmation Letter, dated March 18, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.2 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.3	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.3 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.76.4	Confirmation Letter, dated March 24, 2005, from LaSalle Bank National Association to Brookdale Living Communities, Inc. (incorporated by reference to Exhibit 10.85.4 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.77	Exchange and Stockholder Agreement, dated September 30, 2005, by and among Brookdale Senior Living Inc., Fortress Brookdale Acquisition LLC and Mark J. Schulte. (incorporated by reference to Exhibit 10.86 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.78	Brookdale Senior Living Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.87 to the Company's Registration Statement on Form S-1 (Amendment No. 1) (No. 333-127372) filed on September 21, 2005).
10.79.1	Credit Agreement, dated as of February 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several lenders from time to time parties thereto, Lehman Brothers Inc., as lead arranger, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc., and LaSalle Bank National Association, as co-arrangers, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc. as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.2	Guarantee and Pledge Agreement, dated as of February 10, 2006, made by Brookdale Senior Living Inc. and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 13, 2006).
10.79.3*	First Amendment, Consent and Waiver to Credit Agreement, dated May 10, 2006, among Brookdale Senior Living Inc., as Borrower, the several banks and other financial institutions or entities from time to time parties thereto, Lehman Brothers Inc, as lead arranger, Goldman Sachs Credit Partners L.P., Citigroup Global Markets Inc. and LaSalle Bank National Association, as co-arrangers, LaSalle Bank National Association, as syndication agent, Goldman Sachs Credit Partners L.P. and Citicorp North America, Inc., as co-documentation agents and Lehman Commercial Paper Inc., as administrative agent (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form

10-Q filed on May 15, 2006).

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Exhibit No.	Description
10.80*	Investment Agreement, dated as of May 12, 2006, by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.81*	Form of Option Agreement by and among Brookdale Senior Living Inc. and RIC Coinvestment Fund LP (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.82*	Employment Agreement, dated May 12, 2006, by and between Brookdale Senior Living Inc. and W.E. Sheriff (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.83*	Form of Employment Agreement for Gregory B. Richard, George T. Hicks, Bryan D. Richardson, H. Todd Kaestner and James T. Money (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 12, 2006).
10.84	Master Lease Agreement, dated March 29, 2002, between Health Care Property Investors Inc., and Texas HCP Holding, L.P., as Lessors, and ARC Shavano, L.P., ARC Richmond Heights, LLC, ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., and ARC Post Oak, L.P., as Lessees (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 15, 2002).
10.85	Second Amendment to Master Lease Agreement (Phase I), dated February 28, 2003, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on May 9, 2003).
10.86	Fourth Amendment to Master Lease Agreement (Phase I), dated July 15, 2004, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.87	First Amendment to Master Lease Agreement (Phase III), dated July 15, 2004, between Health Care Property Investors, Inc., Texas HCP Holding, L.P., and Texas HCP Revx, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC Labarc Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and Labarc L.P., as Lessees (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 11, 2004).
10.88	

Second Amendment to Master Lease (Phase III), dated June 30, 2005, by and between Health Care Property Investors, Inc., Texas HCP Holding, L.P., for itself and as successor-by-merger to Texas HCP REVX, L.P., ARC Richmond Place Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, ARC Sun City Center Real Estate Holdings, LLC, and ARC LaBARC Real Estate Holdings, LLC, as Lessors, and Fort Austin Limited Partnership, ARC Santa Catalina, Inc., ARC Richmond Place, Inc., Freedom Village of Holland, Michigan, Freedom Village of Sun City Center, Ltd., and LaBARC, L.P., as Lessees (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).

Exhibit No.	Description
10.89	Fifth Amendment to Master Lease (Phase I), dated June 30, 2005, between Health Care Property Investors, Inc. and Texas HCP Holding, L.P., as Lessors, and ARC Richmond Heights, LLC, ARC Shavano, L.P., ARC Delray Beach, LLC, ARC Victoria, L.P., ARC Carriage Club of Jacksonville, Inc., ARC Post Oak, L.P., and ARC Boynton Beach, LLC, as Lessees (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q filed by American Retirement Corporation on August 5, 2005).
21.1	Subsidiaries of the registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
23.1**	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)
23.2	Consent of Ernst & Young LLP—Chicago, Illinois
23.3	Consent of Ernst & Young LLP—Dallas, Texas
23.4	Consent of KPMG LLP—Milwaukee, Wisconsin
23.5	Consent of KPMG LLP—Nashville, Tennessee
24.1	Powers of Attorney (included on the signature pages hereto)

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*Schedules and exhibits omitted pursuant to Item 601(b)(2) of Reg. S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

**To be filed by amendment.

B. Financial Statement Schedules

See Schedule II—Valuation and Qualification Accounts, included in the Combined Financial Statements in Part I of this Registration Statement.

Item 17. Undertakings

(1) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in

the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(2) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago, State of Illinois, on June 14, 2006.

BROOKDALE SENIOR LIVING INC.
By: /s/ Mark J. Schulte
Name: Mark J. Schulte
Title: Chief Executive Officer

In accordance with the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates stated. Each person whose signature appears below constitutes and appoints Wesley R. Edens, Mark J. Schulte, R. Stanley Young and Deborah C. Paskin and each of them severally, as his or her true and lawful attorney-in-fact and agent, each acting along with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) and exhibits to the Registration Statement on Form S-1, and to any registration statement filed under Commission Rule 462, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Wesley R. Edens Wesley R. Edens	Chairman of the Board	June 14, 2006
/s/ Mark J. Schulte Mark J. Schulte	Chief Executive Officer	June 14, 2006
/s/ R. Stanley Young R. Stanley Young	Executive Vice President, Chief Financial Officer and Chief Accounting Officer	June 14, 2006
/s/ William B. Doniger William B. Doniger	Director	June 14, 2006
/s/ Bradley E. Cooper Bradley E. Cooper	Director	June 14, 2006
/s/ Jackie M. Clegg Jackie M. Clegg	Director	June 14, 2006
/s/ Jeffrey G. Edwards Jeffrey G. Edwards	Director	June 14, 2006
/s/ Jeffrey R. Leeds Jeffrey R. Leeds	Director	June 14, 2006
/s/ Samuel Waxman Samuel Waxman	Director	June 14, 2006

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INDEX TO EXHIBITS

Item 16. Exhibits and Financial Statement Schedules

A. Exhibits

Exhibit No.	Description
1.1**	Form of Underwriting Agreement

2.1.1	Asset Purchase Agreement, dated as of September 3, 2004, by and among Fortress CCRC Acquisition LLC, as purchaser, Fortress Investment Fund II LLC, as guarantor, and The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities, as sellers (incorporated by reference to Exhibit 2.2.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.2	Letter Agreement, dated March 9, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition LLC and Fortress Investment Fund II LLC, regarding amendment of the Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.3	Letter Agreement dated April 6, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress CCRC Acquisition, LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.3 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.4	Letter Agreement, dated April 14, 2005, by and among The National Benevolent Association of the Christian Church (Disciples of Christ), Fortress NBA Acquisition LLC, and Fortress Investment Fund II LLC, regarding Asset Purchase Agreement, dated as of September 3, 2004 (incorporated by reference to Exhibit 2.2.4 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.1.5	Supplemental Agreement with Respect to the Asset Purchase Agreement, dated as of September 30, 2004, by and among Fortress CCRC Acquisition LLC, Fortress Investment Fund II LLC, The National Benevolent Association of the Christian Church (Disciples of Christ) and certain of its affiliated entities and the Official Committee of Residents appointed in Chapter 11 Case of The National Benevolent Association of the Christian Church (Disciples of Christ) (incorporated by reference to Exhibit 2.2.5 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.1	Purchase and Sale Agreement, dated March 16, 2005, by and among SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; SHP Ocean House, LLC, as sellers, and FIT REN LLC, as purchaser ((incorporated by reference to Exhibit 2.3.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.2.2	First Amendment to Purchase and Sale Agreement, dated June 10, 2005, by and between SHP Pacific Inn, LLC; SHP Nohl Ranch, LLC; SHP Gables, LLC; SHP Oak Tree Villa, LLC; SHP Lexington, LLC; SHP Inn at the Park, LLC; SHP Paulin Creek, LLC; SHP Mirage Inn, LLC; and SHP Ocean House, LLC, as seller, and FIT REN LLC, as buyer (incorporated by reference to Exhibit 2.3.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).

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Exhibit No.	Description
2.3	Membership Interest Purchase Agreement (Creve Coeur), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.7 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.4	

	Stock Purchase Agreement (Raleigh), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.8 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.5	Stock Purchase Agreement (Glen Ellyn), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.9 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.6	Membership Interest Purchase Agreement (Trillium Place), dated as of March 1, 2005, between Brookdale Development, LLC and DBF Consulting, LLC (incorporated by reference to Exhibit 2.10 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.7	Membership Interest Purchase Agreement (Battery Park), dated as of December 1, 2005, between Brookdale Development, LLC and Alliance Holdings Inc. (incorporated by reference to Exhibit 2.7 to the Company's Annual Report on Form 10-K filed on March 31, 2006)
2.8	Membership Interest Purchase Agreement, dated June 29, 2005, by and among NW Select LLC, Emeritus Corporation, FIT-ALT Investor LLC and Brookdale Senior Living Inc. (incorporated by reference to Exhibit 2.11 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
2.9*	Conveyance Agreement, dated as of September 30, 2005, by and among Brookdale Senior Living Inc., Brookdale Living Communities, Inc., BSL Brookdale Merger Inc., BSL CCRC Merger Inc., BSL FEBC Merger Inc., Emeritus Corporation, FEBC-ALT Investors LLC, FIT-ALT Investor LLC, Fortress CCRC Acquisition LLC, Fortress Investment Trust II, Fortress Registered Investment Trust, Fortress Brookdale Acquisition LLC, Health Partners and NW Select LLC (incorporated by reference to Exhibit 2.12 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
2.10*	Amended and Restated Agreement and Plan of Merger, dated March 30, 2006, by and between BLC Acquisitions, Inc., SALI Merger Sub Inc., and Southern Assisted Living, Inc. (incorporated by reference to Exhibit 2.10 to the Company's Annual Report on Form 10-K filed on March 31, 2006.
2.11*	Stock Purchase Agreement, dated December 30, 2005, by and between Brookdale Communities, Inc. and Capstead Mortgage Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 30, 2005).
2.12*	Asset Purchase Agreement, dated January 11, 2006, by and between BLC Acquisitions, Inc., as buyer, and Health Care Properties I, LLC; Health Care Properties IV, LLC; Health Care Properties VI, LLC; Health Care Properties VII, LLC; Health Care Properties VIII, LLC; Health Care Properties IX, LLC; Health Care Properties X, LLC; Health Care Properties XI, LLC; Health Care Properties XII, LLC; Health Care Properties XIII, LLC; Health Care Properties XV, Ltd.; Health Care Properties XVI, LLC; Health Care Properties XVII, Ltd.; Health Care Properties XVIII, LLC; Health Care Properties XX, LLC; Health Care Properties XXIII, LLC; Health Care Properties XXIV, LLC; Health Care Properties XXV, LLC; Health Care Properties XXVII, LLC; Cleveland Health Care Investors, LLC; and Wellington SPE, LLC, as sellers (incorporated by reference to Exhibit 2.12 to the Company's Annual Report on Form 10-K filed on March 31, 2006).

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Exhibit No.	Description
2 .13*	Asset Purchase Agreement, dated January 12, 2006, by and between AHC Acquisitions, Inc., as buyer, and American Senior Living Limited Partnership; American Senior Living of Fort Walton Beach, FL, LLC; American Senior Living of Jacksonville, LLC; American Senior Living of Jacksonville-SNF, LLC; American Senior Living of Titusville, FL, LLC; ASL Senior Housing, LLC; American Senior Living of Destin, FL, LLC; and American Senior Living of New Port Richey, FL, LLC, as sellers. (incorporated by reference to Exhibit 2.13 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .14*	Purchase and Sale Agreement, dated as of February 7, 2006, among BLC Acquisitions, Inc., as buyer, and PG Santa Monica Senior Housing, LP; PG Tarzana Senior Housing, LP; PG Chino Senior Housing, LP; The Fairways Senior Housing, LLC; AEW/Careage— Federal Way, LLC; AEW/Careage—Bakersfield, LLC; and AEW/Careage—Bakersfield SNF, LLC, as sellers (incorporated by reference to Exhibit 2.14 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
2 .15*	Agreement and Plan of Merger, dated as of May 12, 2006, by and among Brookdale Senior Living Inc., Beta Merger Sub Corporation, and American Retirement Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 12, 2006).
3 .1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
3 .2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-127372) filed on October 11, 2005).
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. 2) (No. 333-127372) filed on October 11, 2005).
4 .2	Stockholders Agreement, dated as of November 28, 2005, by and among Brookdale Senior Living Inc., FIT-ALT Investor LLC, Fortress Brookdale Acquisition LLC, Fortress Investment Trust II and Health Partners. (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on March 31, 2006).
5 .1**	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP relating to the validity of the common stock.
10.1.1	Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.1 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.1.2	Letter Agreement, dated March 28, 2005, regarding the Agreement Regarding Leases, dated October 19, 2004, by and between Brookdale Provident Properties, LLC and PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.1.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.2	Guaranty of Agreement Regarding Leases, dated October 19, 2004, by Brookdale Living Communities, Inc., in favor of PSLT-BLC Properties Holdings, LLC (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-127372) filed on August 9, 2005).
10.3.1	