

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2019

or

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

For the transition period from _____ to _____

Commission File Number: 001-32641

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction
of incorporation or organization)*

20-3068069

(I.R.S. Employer Identification No.)

111 Westwood Place, Suite 400, Brentwood, Tennessee

(Address of principal executive offices)

37027

(Zip Code)

(615) 221-2250

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 Par Value Per Share	BKD	New York Stock Exchange

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

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

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

As of August 2, 2019, 185,497,129 shares of the registrant's common stock, \$0.01 par value, were outstanding (excluding unvested restricted shares).

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2019	December 31, 2018
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 255,999	\$ 398,267
Marketable securities	58,805	14,855
Restricted cash	26,256	27,683
Accounts receivable, net	137,902	133,905
Assets held for sale	46,307	93,117
Prepaid expenses and other current assets, net	130,660	106,189
Total current assets	655,929	774,016
Property, plant and equipment and leasehold intangibles, net	5,214,125	5,275,427
Operating lease right-of-use assets	1,245,735	—
Restricted cash	42,704	24,268
Investment in unconsolidated ventures	26,036	27,528
Goodwill	154,131	154,131
Other intangible assets, net	42,538	51,472
Other assets, net	78,284	160,418
Total assets	\$ 7,459,482	\$ 6,467,260
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ 267,153	\$ 294,426
Current portion of financing lease obligations	65,428	23,135
Current portion of operating lease obligations	182,703	—
Trade accounts payable	104,317	95,049
Accrued expenses	262,484	298,227
Refundable fees and deferred revenue	87,513	62,494
Total current liabilities	969,598	773,331
Long-term debt, less current portion	3,305,419	3,345,754
Financing lease obligations, less current portion	798,159	851,341
Operating lease obligations, less current portion	1,343,763	—
Deferred liabilities	6,602	262,761
Deferred tax liability	18,520	18,371
Other liabilities	151,217	197,289
Total liabilities	6,593,278	5,448,847
Preferred stock, \$0.01 par value, 50,000,000 shares authorized at June 30, 2019 and December 31, 2018; no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 400,000,000 shares authorized at June 30, 2019 and December 31, 2018; 199,781,393 and 196,815,254 shares issued and 193,110,916 and 192,356,051 shares outstanding (including 7,613,787 and 5,756,435 unvested restricted shares), respectively	1,998	1,968
Additional paid-in-capital	4,161,045	4,151,147
Treasury stock, at cost; 6,670,477 and 4,459,203 shares at June 30, 2019 and December 31, 2018, respectively	(79,097)	(64,940)
Accumulated deficit	(3,223,222)	(3,069,272)
Total Brookdale Senior Living Inc. stockholders' equity	860,724	1,018,903
Noncontrolling interest	5,480	(490)
Total equity	866,204	1,018,413
Total liabilities and equity	\$ 7,459,482	\$ 6,467,260

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Resident fees	\$ 801,863	\$ 895,969	\$ 1,611,342	\$ 1,802,235
Management fees	15,449	17,071	31,192	35,752
Reimbursed costs incurred on behalf of managed communities	202,145	242,160	418,967	504,447
Total revenue	1,019,457	1,155,200	2,061,501	2,342,434
Expense				
Facility operating expense (excluding depreciation and amortization of \$86,070, \$105,316, \$174,897, and \$208,484, respectively)	590,246	627,076	1,176,340	1,259,401
General and administrative expense (including non-cash stock-based compensation expense of \$6,030, \$6,269, \$12,386, and \$14,675, respectively)	57,576	62,907	113,887	144,342
Facility operating lease expense	67,689	81,960	136,357	162,360
Depreciation and amortization	94,024	116,116	190,912	230,371
Goodwill and asset impairment	3,769	16,103	4,160	446,466
Loss on facility lease termination and modification, net	1,797	146,467	2,006	146,467
Costs incurred on behalf of managed communities	202,145	242,160	418,967	504,447
Total operating expense	1,017,246	1,292,789	2,042,629	2,893,854
Income (loss) from operations	2,211	(137,589)	18,872	(551,420)
Interest income	2,813	2,941	5,897	5,924
Interest expense:				
Debt	(45,193)	(48,967)	(90,836)	(94,694)
Financing lease obligations	(16,649)	(22,389)	(33,392)	(45,320)
Amortization of deferred financing costs and debt discount	(959)	(2,328)	(1,790)	(6,284)
Change in fair value of derivatives	(27)	(217)	(175)	(143)
Debt modification and extinguishment costs	(2,672)	(9)	(2,739)	(44)
Equity in loss of unconsolidated ventures	(991)	(1,324)	(1,517)	(5,567)
Gain on sale of assets, net	2,846	23,322	2,144	66,753
Other non-operating income	3,199	5,505	6,187	8,091
Income (loss) before income taxes	(55,422)	(181,055)	(97,349)	(622,704)
Benefit (provision) for income taxes	(633)	15,546	(1,312)	(39)
Net income (loss)	(56,055)	(165,509)	(98,661)	(622,743)
Net (income) loss attributable to noncontrolling interest	585	21	596	67
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	\$ (55,470)	\$ (165,488)	\$ (98,065)	\$ (622,676)
Basic and diluted net income (loss) per share attributable to Brookdale Senior Living Inc. common stockholders	\$ (0.30)	\$ (0.88)	\$ (0.53)	\$ (3.33)
Weighted average shares used in computing basic and diluted net income (loss) per share	186,140	187,585	186,442	187,234

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total equity, balance at beginning of period	\$ 917,597	\$ 1,079,561	\$ 1,018,413	\$ 1,530,291
Common stock:				
Balance at beginning of period	\$ 2,000	\$ 1,938	\$ 1,968	\$ 1,913
Issuance of Common stock under Associate Stock Purchase Plan	1	—	2	1
Restricted stock, net	(3)	—	32	28
Shares withheld for employee taxes	—	—	(4)	(4)
Balance at end of period	\$ 1,998	\$ 1,938	\$ 1,998	\$ 1,938
Additional paid-in-capital:				
Balance at beginning of period	\$ 4,154,790	\$ 4,132,747	\$ 4,151,147	\$ 4,126,549
Compensation expense related to restricted stock grants	6,030	6,269	12,386	14,675
Issuance of Common stock under Associate Stock Purchase Plan	299	398	597	769
Restricted stock, net	3	—	(32)	(28)
Shares withheld for employee taxes	(108)	(97)	(3,101)	(2,711)
Other, net	31	36	48	99
Balance at end of period	\$ 4,161,045	\$ 4,139,353	\$ 4,161,045	\$ 4,139,353
Treasury stock:				
Balance at beginning of period	\$ (70,940)	\$ (56,440)	\$ (64,940)	\$ (56,440)
Purchase of treasury stock	(8,157)	—	(14,157)	—
Balance at end of period	\$ (79,097)	\$ (56,440)	\$ (79,097)	\$ (56,440)
Accumulated deficit:				
Balance at beginning of period	\$ (3,167,752)	\$ (2,998,201)	\$ (3,069,272)	\$ (2,541,294)
Cumulative effect of change in accounting principle (Note 2)	—	—	(55,885)	—
Net income (loss)	(55,470)	(165,488)	(98,065)	(622,676)
Other, net	—	(1)	—	280
Balance at end of period	\$ (3,223,222)	\$ (3,163,690)	\$ (3,223,222)	\$ (3,163,690)
Noncontrolling interest:				
Balance at beginning of period	\$ (501)	\$ (483)	\$ (490)	\$ (437)
Net income (loss) attributable to noncontrolling interest	(585)	(21)	(596)	(67)
Noncontrolling interest contribution	6,566	—	6,566	—
Balance at end of period	\$ 5,480	\$ (504)	\$ 5,480	\$ (504)
Total equity, balance at end of period	<u>\$ 866,204</u>	<u>\$ 920,657</u>	<u>\$ 866,204</u>	<u>\$ 920,657</u>
Common Stock Share Activity				
Outstanding shares of common stock:				
Balance at beginning of period	194,573	193,798	192,356	191,276
Issuance of Common stock under Associate Stock Purchase Plan	46	49	96	111
Restricted stock, net	(214)	(36)	3,320	2,805
Shares withheld for employee taxes	(16)	(13)	(450)	(394)
Purchase of treasury stock	(1,278)	—	(2,211)	—
Balance at end of period	<u>193,111</u>	<u>193,798</u>	<u>193,111</u>	<u>193,798</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
Cash Flows from Operating Activities		
Net income (loss)	\$ (98,661)	\$ (622,743)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Debt modification and extinguishment costs	2,739	44
Depreciation and amortization, net	192,702	236,655
Goodwill and asset impairment	4,160	446,466
Equity in loss of unconsolidated ventures	1,517	5,567
Distributions from unconsolidated ventures from cumulative share of net earnings	1,530	1,147
Amortization of deferred gain	—	(2,179)
Amortization of entrance fees	(772)	(837)
Proceeds from deferred entrance fee revenue	1,739	1,398
Deferred income tax (benefit) provision	470	(991)
Operating lease expense adjustment	(8,812)	(12,169)
Change in fair value of derivatives	175	143
(Gain) on sale of assets, net	(2,144)	(66,753)
Loss on facility lease termination and modification, net	2,006	133,423
Non-cash stock-based compensation expense	12,386	14,675
Non-cash interest expense on financing lease obligations	—	6,446
Non-cash management contract termination gain	(640)	(5,076)
Other	(4,401)	(156)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,997)	10,956
Prepaid expenses and other assets, net	30,823	14,303
Prepaid insurance premiums financed with notes payable	(12,090)	(12,425)
Trade accounts payable and accrued expenses	(43,385)	(24,019)
Refundable fees and deferred revenue	(17,226)	8,305
Operating lease assets and liabilities for lessor capital expenditure reimbursements	1,000	—
Operating lease assets and liabilities for lease termination	—	(33,596)
Net cash provided by (used in) operating activities	59,119	98,584
Cash Flows from Investing Activities		
Change in lease security deposits and lease acquisition deposits, net	(83)	(2,962)
Purchase of marketable securities	(98,059)	—
Sale of marketable securities	55,000	273,273
Capital expenditures, net of related payables	(122,297)	(120,458)
Acquisition of assets, net of related payables and cash received	—	(271,320)
Investment in unconsolidated ventures	(4,204)	(8,864)
Distributions received from unconsolidated ventures	5,305	9,397
Proceeds from sale of assets, net	52,430	130,897
Proceeds from notes receivable	31,609	1,393
Property insurance proceeds	—	156
Net cash provided by (used in) investing activities	(80,299)	11,512
Cash Flows from Financing Activities		
Proceeds from debt	158,231	279,919
Repayment of debt and financing lease obligations	(238,036)	(466,267)

Proceeds from line of credit	—	200,000
Repayment of line of credit	—	(200,000)
Purchase of treasury stock, net of related payables	(18,401)	—
Payment of financing costs, net of related payables	(3,342)	(3,191)
Proceeds from refundable entrance fees, net of refunds	—	52
Payments for lease termination	—	(10,548)
Payments of employee taxes for withheld shares	(3,105)	(2,715)
Other	574	770
Net cash provided by (used in) financing activities	(104,079)	(201,980)
Net increase (decrease) in cash, cash equivalents and restricted cash	(125,259)	(91,884)
Cash, cash equivalents and restricted cash at beginning of period	450,218	282,546
Cash, cash equivalents and restricted cash at end of period	<u>\$ 324,959</u>	<u>\$ 190,662</u>

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Business

Brookdale Senior Living Inc. ("Brookdale" or the "Company") is an operator of senior living communities throughout the United States. The Company is committed to providing senior living solutions primarily within properties that are designed, purpose-built, and operated to provide quality service, care, and living accommodations for residents. The Company operates and manages independent living, assisted living, memory care, and continuing care retirement communities ("CCRCs"). The Company also offers a range of home health, hospice, and outpatient therapy services to residents of many of its communities and to seniors living outside of its communities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position, results of operations, and cash flows of the Company for all periods presented. Certain information and footnote disclosures included in annual financial statements have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 14, 2019. Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Company's condensed consolidated financial position or results of operations.

Except for the changes for the impact of the recently adopted accounting pronouncements discussed in this Note, the Company has consistently applied its accounting policies to all periods presented in these condensed consolidated financial statements.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Brookdale and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operations, are accounted for by the equity method. The ownership interest of consolidated entities not wholly-owned by the Company are presented as noncontrolling interests in the accompanying condensed consolidated financial statements. Noncontrolling interest represents the share of consolidated entities owned by third parties. Noncontrolling interest is adjusted for the noncontrolling holder's share of additional contributions, distributions, and the proportionate share of the net income or loss of each respective entity.

Revenue Recognition

Resident Fees

Resident fee revenue is reported at the amount that reflects the consideration the Company expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Resident fee revenue is recognized as performance obligations are satisfied.

Under the Company's senior living residency agreements, which are generally for a contractual term of 30 days to one year, the Company provides senior living services to residents for a stated daily or monthly fee. The Company has elected the lessor practical expedient within Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842") and recognizes, measures, presents, and discloses the revenue for services under the Company's senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts. The Company has determined that the services included under the Company's independent living, assisted living, and memory care residency agreements have the same timing and pattern of transfer. The Company recognizes revenue under ASC 606, *Revenue Recognition from Contracts with Customers* ("ASC 606") for its

independent living, assisted living, and memory care residency agreements for which it has estimated that the nonlease components of such residency agreements are the predominant component of the contract.

The Company enters into contracts to provide home health, hospice, and outpatient therapy services. Each service provided under the contract is capable of being distinct, and thus, the services are considered individual and separate performance obligations. The performance obligations are satisfied and revenue is recognized as services are provided.

The Company receives revenue for services under various third-party payor programs which include Medicare, Medicaid, and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. The Company estimates the transaction price based on the terms of the contract with the payor, correspondence with the payor and historical payment trends, and retroactive adjustments that differ from the Company's estimates are recognized in future periods as final settlements are determined.

Management Services

The Company manages certain communities under contracts which provide periodic management fee payments to the Company. Management fees are generally determined by an agreed upon percentage of gross revenues (as defined in the management agreement). Certain management contracts also provide for an annual incentive fee to be paid to the Company upon achievement of certain metrics identified in the contract. The Company recognizes revenue for community management services in accordance with the provisions of ASC 606. Although there are various management and operational activities performed by the Company under the contracts, the Company has determined that all community operations management activities are a single performance obligation, which is satisfied over time as the services are rendered. The Company estimates the amount of incentive fee revenue expected to be earned, if any, during the annual contract period and revenue is recognized as services are provided. The Company's estimate of the transaction price for management services also includes the amount of reimbursement due from the owners of the communities for services provided and related costs incurred. Such revenue is included in "reimbursed costs incurred on behalf of managed communities" on the condensed consolidated statements of operations. The related costs are included in "costs incurred on behalf of managed communities" on the condensed consolidated statements of operations.

Gain on Sale of Assets

The Company regularly enters into real estate transactions which may include the disposal of certain communities, including the associated real estate. The Company recognizes income from real estate sales under ASC 610-20, *Other Income - Gains and Losses from Derecognition of Nonfinancial Assets* ("ASC 610-20"). Under ASC 610-20, income is recognized when the transfer of control occurs and the Company applies the five-step model for recognition to determine the amount and timing of income to recognize for all real estate sales.

The Company accounts for the sale of equity method investments under ASC 860, *Transfers and Servicing* ("ASC 860"). Under ASC 860, income is recognized when the transfer of control of the equity interest occurs and the Company has no continuing involvement with the transferred financial assets.

Income Taxes

Income taxes are accounted for under the asset and liability approach which requires recognition of deferred tax assets and liabilities for the differences between the financial reporting and tax basis of assets and liabilities. A valuation allowance reduces deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurement* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

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

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

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

Cash and cash equivalents, marketable securities, and restricted cash are reflected in the accompanying condensed consolidated balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity.

Goodwill

The Company tests goodwill for impairment annually as of October 1 or whenever indicators of impairment arise. Factors the Company considers important in its analysis of whether an indicator of impairment exists include a significant decline in the Company's stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The Company is not required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value of a reporting unit is less than its carrying value. The fair values used in the quantitative goodwill impairment test are estimated using Level 3 inputs based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense growth rates, capitalization rates, and discount rates. The Company also considers market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units. If the quantitative goodwill impairment test results in a reporting unit's carrying value exceeding its estimated fair value, an impairment charge will be recorded based on the difference. The impairment charge is limited to the amount of goodwill allocated to the reporting unit.

Long-lived Asset Impairment

Long-lived assets (including right-of-use assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset, calculated utilizing the lowest level of identifiable cash flows. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any amount in excess of fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates (Level 3).

Self-Insurance Liability Accruals

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Although the Company maintains general liability and professional liability insurance policies for its owned, leased, and managed communities under a master insurance program, the Company's current policies provide for deductibles for each and every claim. As a result, the Company is, in effect, self-insured for claims that are less than the deductible amounts. In addition, the Company maintains a high deductible workers compensation program and a self-insured employee medical program.

The Company reviews the adequacy of its accruals related to these liabilities on an ongoing basis, using historical claims, actuarial valuations, third-party administrator estimates, consultants, advice from legal counsel, and industry data, and adjusts accruals periodically. Estimated costs related to these self-insurance programs are accrued based on known claims and projected claims incurred but not yet reported. Subsequent changes in actual experience are monitored, and estimates are updated as information becomes available.

Lease Accounting

The following is the Company's lease accounting policy under ASC 842 subsequent to the adoption. Refer to Recently Adopted Accounting Pronouncements in this Note 2 for significant changes that resulted from the adoption effective January 1, 2019. The Company, as lessee, recognizes a right-of-use asset and a lease liability on the Company's condensed consolidated balance sheet for its community, office, and equipment leases. As of the commencement date of a lease, a lease liability and corresponding right-of-use asset is established on the Company's condensed consolidated balance sheet at the present value of future minimum lease payments. The Company's community leases generally contain fixed annual rent escalators or annual rent escalators based on an index, such as the consumer price index. The future minimum lease payments recognized on the condensed consolidated balance sheet include fixed payments (including in-substance fixed payments) and variable payments estimated utilizing the index or rate on the lease commencement date. The Company recognizes lease expense as incurred for additional variable payments. For the Company's leases that do not contain an implicit rate, the Company utilizes its estimated incremental borrowing rate in determining the present value of lease payments based on information available at commencement of the lease, which reflects the fixed rate

at which the Company could borrow a similar amount for the same term on a collateralized basis. Leases with an initial term of 12 months or less are not recorded on the Company's condensed consolidated balance sheet and instead are recognized as lease expense as incurred.

The Company, as lessee, makes a determination with respect to each of its community, office, and equipment leases as to whether each should be accounted for as an operating lease or financing lease in accordance with the provisions of ASC 842. The classification criteria is based on estimates regarding the fair value of the leased asset, minimum lease payments, effective cost of funds, the economic life of the asset and certain other terms in the lease agreements.

For operating leases, payments made under operating lease arrangements are accounted for in the Company's condensed consolidated statements of operations as operating lease expense for actual rent paid, generally plus or minus a straight-line adjustment for estimated minimum lease escalators if applicable. The right-of-use asset is generally reduced each period by an amount equal to the difference between the operating lease expense and the amount of expense on the lease liability utilizing the effective interest method. Subsequent to the impairment of an operating lease right-of-use asset, the Company recognizes operating lease expense consisting of the reduction of the right-of-use asset on a straight-line basis over the remaining lease term and the amount of expense on the lease liability utilizing the effective interest method.

For financing leases, the Company recognizes interest expense on the lease liability utilizing the effective interest method. Additionally, the right-of-use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term unless the lease contains an option to purchase the underlying asset that the Company is reasonably certain to exercise in which case the asset is depreciated over the useful life of the underlying asset.

For transactions in which an owned community is sold and leased back from the buyer (sale-leaseback transactions), the Company recognizes an asset sale and lease accounting is applied if the Company has transferred control of the community. For such transactions, the Company removes the transferred assets from the condensed consolidated balance sheet and a gain or loss on the sale is recognized for the difference between the carrying value of the asset and the transaction price for the sale transaction. For sale-leaseback transactions in which the Company has not transferred control of the underlying asset, the Company does not recognize an asset sale or derecognize the underlying asset until control is transferred. For such transactions, the Company continues to depreciate the asset over its useful life. Additionally, the Company accounts for any amounts received as a financing lease liability and the Company recognizes interest expense on the financing lease liability utilizing the effective interest method with the interest expense limited to an amount that is not greater than the cash payments on the financing lease liability over the term of the lease.

Refer to the Company's revenue recognition policy for discussion of the accounting policy for residency agreements, which include the lease of an asset.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability on the condensed consolidated balance sheet for most leases. Additionally, ASU 2016-02 makes targeted changes to lessor accounting, including changes to align certain aspects with the revenue recognition model, and requires enhanced disclosure of lease arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, ASU 2018-11 provides entities with a practical expedient allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. The Company adopted these lease accounting standards effective January 1, 2019 and utilized the modified retrospective transition method with no adjustments to comparative periods presented. Additionally, the Company elected the package of practical expedients within ASU 2016-02 that allows an entity to not reassess, as of January 1, 2019, its prior conclusions on whether an existing contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs.

The Company's adoption of ASU 2016-02 resulted in the recognition of operating lease liabilities of \$1.6 billion and right-of-use assets of \$1.3 billion on the condensed consolidated balance sheet for its existing community, office, and equipment operating leases based on the remaining present value of the minimum lease payments as of January 1, 2019. The future minimum rental payments recognized on the condensed consolidated balance sheet included fixed payments (including in-substance fixed payments) and variable payments estimated utilizing the index or rate as of January 1, 2019. Such right-of-use asset amounts were recognized based upon the amount of the recognized lease liabilities, adjusted for accrued lease payments, intangible assets, and the recognition of right-of-use asset impairments. As of December 31, 2018, the Company had a net liability of \$231.4 million

recognized on its condensed consolidated balance sheet for accrued lease payments and intangible assets for operating leases. Additionally, \$58.1 million of previously unrecognized right-of-use asset impairments were recognized as a cumulative effect adjustment to beginning accumulated deficit as of January 1, 2019. As a result of the Company's election of the package of practical expedients within ASU 2016-02, there were no changes to the classification of the Company's existing operating, capital and financing leases as of January 1, 2019 and there were no changes to the amounts recognized on its condensed consolidated balance sheet for its existing capital and financing leases as of January 1, 2019.

Subsequent to the adoption of ASU 2016-02, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of ASC 842 and the nonlease components utilizing the provisions of ASC 606. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with ASC 840, *Leases* ("ASC 840") prior to the adoption of ASU 2016-02 (such as common area maintenance services, other basic services, and executory costs) are recognized as nonlease components subject to the provisions of ASC 606 subsequent to the adoption of ASU 2016-02. However, entities are permitted to elect the practical expedient under ASU 2018-11 allowing lessors to not separate nonlease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/nonlease component combination practical expedient under ASU 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date.

For the year ended December 31, 2018, the Company recognized revenue for housing services under independent living, assisted living, and memory care residency agreements in accordance with the provisions of the former lease accounting standard, ASC 840, and the Company recognized revenue for assistance with activities of daily living, memory care services, healthcare, and personalized health services under independent living, assisted living, and memory care residency agreements in accordance with the provisions of ASC 606.

Upon adoption of ASU 2016-02 and ASU 2018-11, the Company elected the lessor practical expedient within ASU 2018-11 and recognizes, measures, presents, and discloses the revenue for housing services under the Company's senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC 842 and ASC 606.

The Company has concluded that the nonlease components of the Company's independent living, assisted living, and memory care residency agreements are the predominant component of the contract for the Company's existing agreements as of January 1, 2019. As a result of the Company's election of the package of practical expedients within ASU 2016-02, the Company continued to recognize revenue for existing contracts as of December 31, 2018 over the lease term. In addition, ASU 2016-02 has changed the definition of initial direct costs of a lease, with the initial direct costs that are initially deferred and recognized over the term of the lease limited to costs that are both incremental and direct. The Company concluded that the contract origination costs recognized on the condensed consolidated balance sheet as of December 31, 2018 were in excess of the initial direct costs that would have been deferred under the provisions of ASU 2016-02. As a result of the Company's election of the package of practical expedients, the contract origination costs recognized on the condensed consolidated balance sheet as of December 31, 2018 continued to be amortized during 2019 over the lease term. Additionally, the Company concluded that certain costs previously deferred upon new contract origination are recognized within facility operating expense in 2019 as incurred.

In addition to the previously unrecognized right-of-use asset impairment of \$58.1 million, the Company recognized cumulative effect adjustments to beginning accumulated deficit as of January 1, 2019 for the impact of the adoption of accounting standards by its equity method investees and the deferred tax impact of these adjustments. The recognition of the right-of-use assets and corresponding liabilities and the removal of the deferred tax position related to these leases as of December 31, 2018 had a \$0.3 million impact on the Company's net deferred tax position. A deferred tax asset of \$14.1 million and an increase to the valuation allowance of \$13.8 million was recorded against accumulated deficit reflecting the tax impact of the previously unrecognized right-of-use asset impairments.

The adoption of the new accounting standards resulted in the following adjustments to the Company's condensed consolidated balance sheet as of January 1, 2019:

(in millions)

Assets

Prepaid expenses and other current assets, net	\$	67
Property, plant and equipment and leasehold intangibles, net		(11)
Operating lease right-of-use assets		1,329
Investment in unconsolidated ventures		(2)
Other intangible assets, net		(5)
Other assets, net		(73)
Total assets	\$	1,305

Liabilities and Equity

Refundable fees and deferred revenue	\$	43
Operating lease obligations		1,618
Deferred liabilities		(257)
Other liabilities		(43)
Total liabilities		1,361
Total equity		(56)
Total liabilities and equity	\$	1,305

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivable and other financial instruments. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company plans to adopt ASU 2016-13 effective January 1, 2020 and will recognize any cumulative effect of the adoption as an adjustment to beginning retained earnings with no adjustments to comparative periods presented. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its condensed consolidated financial statements and disclosures.

3. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if securities or other instruments that are convertible into common stock were exercised or could result in the issuance of common stock. Potentially dilutive common stock equivalents include unvested restricted stock, unvested and vested restricted stock units, and convertible debt instruments and warrants.

During the three and six months ended June 30, 2019 and 2018, the Company reported a consolidated net loss. As a result of the net loss, unvested restricted stock, restricted stock units, and convertible debt instruments and warrants were antidilutive for each period and were not included in the computation of diluted weighted average shares. The weighted average restricted stock and restricted stock units excluded from the calculations of diluted net loss per share were 7.8 million and 6.2 million for the three months ended June 30, 2019 and 2018, respectively, and 7.5 million and 6.6 million for the six months ended June 30, 2019 and 2018, respectively.

For the three and six months ended June 30, 2018, the calculation of diluted weighted average shares excludes the impact of conversion of the principal amount of \$316.3 million of the Company's 2.75% convertible senior notes which were repaid in cash at their maturity on June 15, 2018. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of June 30, 2018, the number of shares issuable upon exercise of the warrants was approximately 10.8 million. During the three months ended March 31, 2019, the option to exercise the remaining outstanding warrants expired unexercised.

4. Acquisitions, Dispositions and Other Significant Transactions

During the period from January 1, 2018 through June 30, 2019, the Company disposed of 30 owned communities. The Company also entered into agreements with Ventas, Inc. ("Ventas") and Welltower Inc. ("Welltower") and continued to execute on the transactions with HCP, Inc. ("HCP") announced in 2017, which together restructured a significant portion of the Company's triple-net lease obligations with the Company's largest lessors. As a result of such transactions, as well as other lease expirations and terminations, the Company's triple-net lease obligations on 97 communities were terminated during the period from January 1, 2018 to June 30, 2019. During this period, the Company also sold its ownership interests in five unconsolidated ventures and acquired six communities that the Company previously leased or managed. As of June 30, 2019, the Company owned 336 communities, leased 335 communities, managed 17 communities on behalf of unconsolidated ventures, and managed 121 communities on behalf of third parties.

The following table sets forth, for the periods indicated, the amounts included within the Company's condensed consolidated financial statements for the 127 communities that it disposed through sales and lease terminations during the period from January 1, 2018 to June 30, 2019 through the respective disposition dates (of which 124 communities were disposed through sales and lease terminations during the period from April 1, 2018 to June 30, 2019):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Resident fees				
Independent Living	\$ —	\$ 29,241	\$ —	\$ 60,871
Assisted Living and Memory Care	2,176	86,151	12,282	178,267
CCRCs	—	4,213	—	10,705
Senior housing resident fees	\$ 2,176	\$ 119,605	\$ 12,282	\$ 249,843
Facility operating expense				
Independent Living	\$ —	\$ 17,016	\$ —	\$ 35,668
Assisted Living and Memory Care	1,562	60,854	10,100	125,423
CCRCs	—	3,859	—	9,917
Senior housing facility operating expense	\$ 1,562	\$ 81,729	\$ 10,100	\$ 171,008
Cash facility lease payments	\$ 306	\$ 32,228	\$ 1,451	\$ 66,935

2019 Completed and Planned Dispositions of Owned Communities

During the six months ended June 30, 2019, the Company completed the sale of eight owned communities for cash proceeds of \$44.1 million, net of transaction costs, and recognized a net gain on sale of assets of \$1.6 million for the three months ended June 30, 2019 and a net gain on sale of assets of \$0.9 million for the six months ended June 30, 2019.

As of June 30, 2019, five communities were classified as held for sale, resulting in \$46.3 million being recorded as assets held for sale and \$18.5 million of mortgage debt being included in the current portion of long-term debt within the condensed consolidated balance sheet with respect to such communities. The closings of the transactions are, or will be subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. There can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

2018 Completed Dispositions of Owned Communities

During the year ended December 31, 2018, the Company completed the sale of 22 owned communities for cash proceeds of \$380.7 million, net of transaction costs, and recognized a net gain on sale of assets of \$188.6 million. The Company utilized a portion of the cash proceeds from the asset sales to repay approximately \$174.0 million of associated mortgage debt and debt prepayment penalties. These dispositions included the sale of three communities during the three months ended March 31, 2018 for which the Company received cash proceeds of \$12.8 million, net of transaction costs, and recognized a net gain on sale of assets of \$1.9 million. The Company did not complete any sales of owned communities during the three months ended June 30, 2018.

2018 Welltower Lease and RIDEA Venture Restructuring

In June 2018, the Company entered into definitive agreements with Welltower to terminate its triple-net lease obligations on 37 communities and to sell the Company's 20% equity interest in its Welltower RIDEA venture to Welltower. During the three months ended June 30, 2018, the Company paid Welltower an aggregate lease termination fee of \$58.0 million, recognized a \$22.6 million loss on lease termination, received net proceeds of \$33.5 million for the sale of equity interest, and recognized a \$14.7 million gain on sale of the RIDEA venture. The Company also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities). In addition, the parties separately agreed to allow the Company to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and the Company would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.

2018 Ventas Lease Portfolio Restructuring

In April 2018, the Company and Ventas entered into a Master Lease and Security Agreement (the "Ventas Master Lease") in connection with the restructuring of a portfolio of 128 communities that it leased from Ventas. The Company estimated the fair value of each of the elements of the restructuring transactions. The fair value of the future lease payments was based upon historical and forecasted community cash flows and market data, including an implied management fee rate of 5% of revenue and a market supported lease coverage ratio (Level 3 inputs). The Company recognized a \$125.7 million non-cash loss on lease modification during the three months ended June 30, 2018, primarily for the extensions of the triple-net lease obligations for communities with lease terms that were unfavorable to the Company given current market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases.

Pursuant to the Ventas Master Lease, the Company has exercised its right to direct Ventas to market for sale 28 communities. Ventas is obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community is subject to Ventas' receiving a purchase price in excess of a mutually agreed upon minimum sale price and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%. During the three months ended June 30, 2019, five of such communities were sold by Ventas and removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease was prospectively reduced by \$1.5 million.

2017 HCP Master Lease Transaction and RIDEA Ventures Restructuring

Pursuant to transactions the Company entered into with HCP in November 2017, during the three months ended June 30, 2018, the Company acquired five communities from HCP, two of which the Company formerly leased, for an aggregate purchase price of \$242.8 million, and during the three months ended March 31, 2018, the Company acquired one community for an aggregate purchase price of \$32.1 million.

During the year ended December 31, 2018, leases with respect to 33 communities were terminated, and such communities were removed from the Company's master lease with HCP. Ten of such community leases were terminated in the three months ended June 30, 2018. During the three months ended June 30, 2018, the Company derecognized the \$86.9 million carrying value of the assets under financing leases and the \$93.5 million carrying value of financing lease obligations and recognized a \$6.5 million non-cash gain on sale of assets for three communities which were previously subject to sale-leaseback transactions. Additionally, the Company recognized a \$1.9 million non-cash gain on lease termination for seven communities under operating and capital leases during the three months ended June 30, 2018.

During the three months ended March 31, 2018, HCP acquired the Company's 10% ownership interest in a RIDEA venture with HCP for \$62.3 million, and the Company recognized a \$41.7 million gain on sale.

Management agreements for 35 communities with former unconsolidated ventures with HCP have been terminated by HCP since November of 2017. The Company has recognized a \$9.3 million non-cash management contract termination gain, of which \$0.3 million and \$2.8 million were recognized during the three months ended June 30, 2019 and 2018, respectively, and \$0.8 million and \$5.1 million were recognized during the six months ended June 30, 2019 and 2018 respectively.

5. Fair Value Measurements

Marketable Securities

As of June 30, 2019, marketable securities of \$58.8 million are stated at fair value based on valuation provided by third-party pricing services and are classified within Level 2 of the valuation hierarchy.

Debt

The Company had outstanding long-term debt with a carrying value of approximately \$3.6 billion as of both June 30, 2019 and December 31, 2018. Fair value of the long-term debt approximates carrying value in all periods. The Company's fair value of long-term debt disclosure is classified within Level 2 of the valuation hierarchy.

Goodwill and Asset Impairment Expense

The following is a summary of goodwill and asset impairment expense.

(in millions)	Three Months Ended June 30,	Six Months Ended June 30,
	2018	2018
Goodwill	\$ —	\$ 351.7
Property, plant and equipment and leasehold intangibles, net	6.9	47.7
Investment in unconsolidated ventures	—	33.4
Other intangible assets, net	—	1.7
Assets held for sale	9.2	12.0
Goodwill and asset impairment	\$ 16.1	\$ 446.5

Goodwill

During the three months ended March 31, 2018, the Company identified qualitative indicators of impairment, including a significant decline in the Company's stock price and market capitalization for a sustained period during the three months ended March 31, 2018. Based upon the Company's qualitative assessment, the Company performed a quantitative goodwill impairment test as of March 31, 2018, which included a comparison of the estimated fair value of each reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. Based on the results of the Company's quantitative goodwill impairment test, the Company recorded a non-cash impairment charge of \$351.7 million to goodwill and asset impairment within the Assisted Living and Memory Care operating segment for the three months ended March 31, 2018. See Note 2 for more information regarding the Company's policy for goodwill.

Property, Plant and Equipment and Leasehold Intangibles

During the three and six months ended June 30, 2018, the Company evaluated property, plant and equipment and leasehold intangibles for impairment and identified properties with a carrying value of the assets in excess of the estimated future undiscounted net cash flows expected to be generated by the assets primarily due to an expectation that certain communities will be disposed of prior to their previously intended holding periods. As a result of this change in intent, the Company compared the estimated fair value of the assets to their carrying value for these identified properties and recorded an impairment charge for the excess of carrying value over estimated fair value. The estimates of fair values of the property, plant and equipment of these communities were determined based on valuations provided by third-party pricing services and are classified within Level 3 of the valuation hierarchy. The Company recorded property, plant and equipment and leasehold intangibles non-cash impairment charges in its operating results of \$6.9 million and \$47.7 million for the three and six months ended June 30, 2018, respectively, primarily within the Assisted Living and Memory Care segment.

Investment in Unconsolidated Ventures

The Company evaluates realization of its investment in ventures accounted for using the equity method if circumstances indicate that the Company's investment is other than temporarily impaired. During the three months ended March 31, 2018, the Company recorded non-cash impairment charges related to investments in unconsolidated ventures of \$33.4 million. The impairment charges reflect the amount by which the carrying values of the investments exceeded their estimated fair value (using Level 3 inputs). The

Company did not record any impairment for the three months ended June 30, 2018 or for the three or six months ended June 30, 2019.

Right-of-Use Assets

The Company's adoption of ASU 2016-02 resulted in the recognition of the right-of-use assets for the operating leases for 25 communities to be recognized on the condensed consolidated balance sheet as of January 1, 2019 at the estimated fair value of \$56.6 million as the Company determined that the long-lived assets of such communities were not recoverable as of such date. The fair value of the right-of-use assets was estimated utilizing a discounted cash flow approach based upon historical and projected community cash flows and market data, including management fees and a market supported lease coverage ratio (Level 3 inputs). The Company corroborated the estimated management fee rates and lease coverage ratios used in these estimates with lease coverage ratios observable from recent market transactions. The estimated future cash flows were discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. See Note 2 for more information regarding the recognition of right-of-use assets for operating leases upon the adoption of ASU 2016-02.

6. Stock-Based Compensation

Grants of restricted shares under the Company's 2014 Omnibus Incentive Plan were as follows:

<i>(in thousands, except for per share amounts)</i>	Shares Granted	Weighted Average Grant Date Fair Value	Total Value
Three months ended March 31, 2019	4,047	\$ 7.87	\$ 31,857
Three months ended June 30, 2019	142	\$ 6.51	\$ 922

7. Goodwill and Other Intangible Assets, Net

The Company's Independent Living and Health Care Services segments had a carrying value of goodwill of \$27.3 million and \$126.8 million, respectively, as of both June 30, 2019 and December 31, 2018.

Goodwill is tested for impairment annually with a test date of October 1 and sooner if indicators of impairment are present. The Company determined no impairment was necessary for the three and six months ended June 30, 2019. Factors the Company considers important in its analysis, which could trigger an impairment of such assets, include significant underperformance relative to historical or projected future operating results, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period and a decline in its market capitalization below net book value. A change in anticipated operating results or the other metrics indicated above could necessitate further analysis of potential impairment at an interval prior to the Company's annual measurement date. Refer to Note 5 for information on impairment expense for goodwill in 2018.

Other intangible assets as of June 30, 2019 and December 31, 2018 are summarized in the following tables:

<i>(in thousands)</i>	June 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net
Health care licenses	\$ 42,323	\$ —	\$ 42,323
Trade names	27,800	(27,585)	215
Total	\$ 70,123	\$ (27,585)	\$ 42,538

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net
<i>(in thousands)</i>			
Community purchase options	\$ 4,738	\$ —	\$ 4,738
Health care licenses	42,323	—	42,323
Trade names	27,800	(26,295)	1,505
Management contracts	9,610	(6,704)	2,906
Total	\$ 84,471	\$ (32,999)	\$ 51,472

Amortization expense related to definite-lived intangible assets for both the three months ended June 30, 2019 and 2018 was \$0.8 million and for the six months ended June 30, 2019 and 2018 was \$1.6 million and \$1.7 million, respectively. The Company recognized \$2.6 million of non-cash impairment charges on management contract intangible assets during the three and six months ended June 30, 2019 for the termination of management contracts.

8. Property, Plant and Equipment and Leasehold Intangibles, Net

As of June 30, 2019 and December 31, 2018, net property, plant and equipment and leasehold intangibles, which include assets under financing leases, consisted of the following:

<i>(in thousands)</i>	June 30, 2019	December 31, 2018
Land	\$ 455,590	\$ 455,623
Buildings and improvements	4,791,438	4,749,877
Furniture and equipment	834,496	805,190
Resident and leasehold operating intangibles	319,179	477,827
Construction in progress	86,104	57,636
Assets under financing leases and leasehold improvements	1,810,335	1,776,649
Property, plant and equipment and leasehold intangibles	8,297,142	8,322,802
Accumulated depreciation and amortization	(3,083,017)	(3,047,375)
Property, plant and equipment and leasehold intangibles, net	\$ 5,214,125	\$ 5,275,427

Assets under financing leases and leasehold improvements includes \$0.7 billion of financing lease right-of-use assets, net of accumulated amortization, as of both June 30, 2019 and December 31, 2018. Refer to Note 10 for further information on the Company's financing leases.

The Company recognized depreciation and amortization expense on its property, plant and equipment and leasehold intangibles of \$93.2 million and \$115.3 million for the three months ended June 30, 2019 and 2018, respectively, and \$189.3 million and \$228.7 million for the six months ended June 30, 2019 and 2018, respectively.

Long-lived assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives (or, in certain cases, the shorter of their estimated useful lives or the lease term) and are tested for impairment whenever indicators of impairment arise. Refer to Note 5 for additional information on impairment expense for property, plant and equipment and leasehold intangibles.

9. Debt

Long-term debt as of June 30, 2019 and December 31, 2018 consists of the following:

<i>(in thousands)</i>	June 30, 2019	December 31, 2018
Mortgage notes payable due 2019 through 2047; weighted average interest rate of 4.88% for the six months ended June 30, 2019, less debt discount and deferred financing costs of \$17.4 million and \$18.6 million as of June 30, 2019 and December 31, 2018, respectively (weighted average interest rate of 4.75% in 2018)	\$ 3,504,957	\$ 3,579,931
Other notes payable, weighted average interest rate of 5.58% for the six months ended June 30, 2019 (weighted average interest rate of 5.85% in 2018) and maturity dates ranging from 2019 to 2021	67,615	60,249
Total long-term debt	3,572,572	3,640,180
Less current portion	267,153	294,426
Total long-term debt, less current portion	\$ 3,305,419	\$ 3,345,754

As of June 30, 2019 and December 31, 2018, the current portion of long-term debt within the Company's condensed consolidated financial statements includes \$18.5 million and \$31.2 million, respectively, of mortgage notes payable secured by assets held for sale. This debt is expected to be repaid with the proceeds from the sales. Refer to Note 4 for more information about the Company's assets held for sale.

Credit Facilities

On December 5, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety the Company's Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. The Company has a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides the Company a one-time right to reduce the amount of the revolving credit commitments, and the Company may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The Amended Agreement extended the maturity date of the Original Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of the Company's communities. In addition, the Amended Agreement permits the Company to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit facility will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and the Company's consolidated fixed charge coverage ratio. In July of 2019 the Company added three communities to the borrowing base.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of June 30, 2019, no borrowings were outstanding on the revolving credit facility, \$41.2 million of letters of credit were outstanding, and the revolving credit facility had \$163.5 million of availability. The Company also had a separate unsecured credit facility of up to \$47.5 million as of June 30, 2019. Letters of credit totaling \$47.5 million had been issued under the separate

facility as of that date. After giving effect to the addition of the three communities to the borrowing base described above, availability under the secured credit facility is \$180.8 million as of August 6, 2019.

2019 Financings

On May 7, 2019, the Company obtained \$111.1 million of debt secured by the non-recourse first mortgages on 14 communities. Sixty percent of the principal amount bears interest at a fixed rate of 4.52%, and the remaining forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 223 basis points. The debt matures in June 2029. The \$111.1 million of proceeds from the financing along with cash on hand were utilized to repay \$155.5 million of outstanding mortgage debt maturing in 2019.

Financial Covenants

Certain of the Company's debt documents contain restrictions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and debt service ratios, and requiring the Company not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. In addition, the Company's debt documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable debt documents. Many of the Company's debt documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors). Furthermore, the Company's debt is secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of June 30, 2019, the Company is in compliance with the financial covenants of its debt agreements.

10. Leases

As of June 30, 2019, the Company operated 335 communities under long-term leases (244 operating leases and 91 financing leases). The substantial majority of the Company's lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. The Company typically guarantees the performance and lease payment obligations of its subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of such leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or based upon changes in the consumer price index or the leased property revenue. The Company is responsible for all operating costs, including repairs, property taxes, and insurance. As of June 30, 2019, the weighted-average remaining lease term of the Company's operating and financing leases was 7.3 and 8.8 years, respectively. The leases generally provide for renewal or extension options from 5 to 20 years and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions and financial covenants, such as those requiring the Company to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios, in each case on a consolidated, portfolio-wide, multi-community, single-community and/or entity basis. In addition, the Company's lease documents generally contain non-financial covenants, such as those requiring the Company to comply with Medicare or Medicaid provider requirements.

The Company's failure to comply with applicable covenants could constitute an event of default under the applicable lease documents. Many of the Company's debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors). Certain leases contain cure provisions, which generally allow the Company to post an additional lease security deposit if the required covenant is not met. Furthermore, the Company's leases are secured by its communities and, in certain cases, a guaranty by the Company and/or one or more of its subsidiaries.

As of June 30, 2019, the Company is in compliance with the financial covenants of its long-term leases.

A summary of operating and financing lease expense (including the respective presentation on the condensed consolidated statements of operations) and cash flows from leasing transactions is as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
<i>Operating Leases (in thousands)</i>		
Facility operating expense	\$ 4,604	\$ 9,229
Facility lease expense	67,689	136,357
Operating lease expense	72,293	145,586
Operating lease expense adjustment	4,429	8,812
Operating cash flows from operating leases	<u>\$ 76,722</u>	<u>\$ 154,398</u>

Non-cash recognition of right-of-use assets obtained in exchange for new operating lease obligations	\$ 2,623	\$ 3,981
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	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
<i>Financing Leases (in thousands)</i>		
Depreciation and amortization	\$ 11,677	\$ 23,355
Interest expense: financing lease obligations	16,649	33,392
Financing lease expense	<u>\$ 28,326</u>	<u>\$ 56,747</u>

Operating cash flows from financing leases	\$ 16,649	\$ 33,392
Financing cash flows from financing leases	5,500	10,953
Total cash flows from financing leases	<u>\$ 22,149</u>	<u>\$ 44,345</u>

As of June 30, 2019, the weighted-average discount rate of the Company's operating and financing leases was 8.6% and 7.8%, respectively. As the Company's community leases do not contain an implicit rate, the Company utilized its incremental borrowing rate based on information available on January 1, 2019 to determine the present value of lease payments for operating leases that commenced prior to that date.

The aggregate amounts of future minimum lease payments, including community, office, and equipment leases recognized on the condensed consolidated balance sheet as of June 30, 2019 are as follows (in thousands):

Year Ending December 31,	Operating Leases	Financing Leases
2019 (six months)	\$ 152,768	\$ 44,087
2020	307,826	89,003
2021	291,491	90,243
2022	288,319	91,633
2023	284,399	93,104
Thereafter	783,498	428,952
Total lease payments	2,108,301	837,022
Purchase option liability and non-cash gain on future sale of property	—	575,531
Imputed interest and variable lease payments	(581,835)	(548,966)
Total lease obligations	<u>\$ 1,526,466</u>	<u>\$ 863,587</u>

The aggregate amounts of future minimum operating lease payments, including community, office, and equipment leases not recognized on the condensed consolidated balance sheet under ASC 840 as of December 31, 2018 are as follows (in thousands):

Year Ending December 31,	Operating Leases
2019	\$ 310,340
2020	307,493
2021	290,661
2022	291,114
2023	285,723
Thereafter	786,647
Total lease payments	\$ 2,271,978

11. Litigation

The Company has been and is currently involved in litigation and claims, including putative class action claims from time to time, incidental to the conduct of its business which are generally comparable to other companies in the senior living and healthcare industries. Certain claims and lawsuits allege large damage amounts and may require significant costs to defend and resolve. As a result, the Company maintains general liability and professional liability insurance policies in amounts and with coverage and deductibles the Company believes are adequate, based on the nature and risks of its business, historical experience and industry standards. The Company's current policies provide for deductibles for each claim. Accordingly, the Company is, in effect, self-insured for claims that are less than the deductible amounts and for claims or portions of claims that are not covered by such policies.

Similarly, the senior living and healthcare industries are continuously subject to scrutiny by governmental regulators, which could result in reviews, audits, investigations, enforcement activities or litigation related to regulatory compliance matters. In addition, as a result of the Company's participation in the Medicare and Medicaid programs, the Company is subject to various governmental reviews, audits and investigations, including but not limited to audits under various government programs, such as the Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), and Unified Program Integrity Contractors (UPIC) programs. The costs to respond to and defend such reviews, audits and investigations may be significant, and an adverse determination could result in citations, sanctions and other criminal or civil fines and penalties, the refund of overpayments, payment suspensions, termination of participation in Medicare and Medicaid programs, and/or damage to the Company's business reputation.

12. Supplemental Disclosure of Cash Flow Information

<i>(in thousands)</i>	Six Months Ended June 30,	
	2019	2018
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 124,647	\$ 133,000
Income taxes paid, net of refunds	1,916	1,421
Capital expenditures, net of related payables		
Capital expenditures - non-development, net	\$ 121,066	\$ 89,417
Capital expenditures - development, net	10,623	13,390
Capital expenditures - non-development - reimbursable	1,000	1,764
Capital expenditures - development - reimbursable	—	695
Trade accounts payable	(10,392)	15,192
Net cash paid	\$ 122,297	\$ 120,458
Acquisition of assets, net of related payables and cash received:		
Property, plant and equipment and leasehold intangibles, net	\$ —	\$ 237,563

Other intangible assets, net	—	(4,796)
Financing lease obligations	—	36,120
Other liabilities	—	2,433
Net cash paid	<u>\$ —</u>	<u>\$ 271,320</u>
Proceeds from sale of assets, net:		
Prepaid expenses and other assets, net	\$ (5,798)	\$ (1,991)
Assets held for sale	(41,882)	(18,758)
Property, plant and equipment and leasehold intangibles, net	(688)	(87,864)
Investments in unconsolidated ventures	(156)	(58,179)
Financing lease obligations	—	93,514
Refundable fees and deferred revenue	—	8,345
Other liabilities	(1,762)	789
Gain on sale of assets, net	(2,144)	(66,753)
Net cash received	<u>\$ (52,430)</u>	<u>\$ (130,897)</u>
Lease termination and modification, net:		
Prepaid expenses and other assets, net	\$ —	\$ (2,000)
Property, plant and equipment and leasehold intangibles, net	—	(52,920)
Financing lease obligations	—	21,898
Deferred liabilities	—	67,950
Loss on facility lease termination and modification, net	—	22,260
Net cash paid ⁽¹⁾	<u>\$ —</u>	<u>\$ 57,188</u>

Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:

Assets designated as held for sale:		
Prepaid expenses and other assets, net	\$ (5)	\$ —
Assets held for sale	(4,928)	58,445
Property, plant and equipment and leasehold intangibles, net	4,933	(58,445)
Net	<u>\$ —</u>	<u>\$ —</u>
Lease termination and modification, net:		
Prepaid expenses and other assets, net	\$ (648)	\$ (2,813)
Property, plant and equipment and leasehold intangibles, net	(1,666)	2,959
Financing lease obligations	—	(2,375)
Operating lease right-of-use assets	(8,644)	—
Operating lease obligations	9,289	—
Deferred liabilities	—	(122,304)
Other liabilities	(337)	326
Loss on facility lease termination and modification, net	2,006	124,207
Net	<u>\$ —</u>	<u>\$ —</u>

(1) The net cash paid to terminate community leases is presented within the condensed consolidated statement of cash flows based upon the lease classification of the terminated leases. Net cash paid of \$46.6 million for the termination of operating leases is presented within net cash provided by (used in) operating activities and net cash paid of \$10.5 million for the termination of capital leases is presented within net cash provided by (used in) financing activities for the six months ended June 30, 2018.

During the three months ended June 30, 2019, the Company and its joint venture partner contributed cash in an aggregate amount of \$13.3 million to a consolidated joint venture which owns three senior housing communities. The Company obtained a \$6.6 million promissory note receivable from its joint venture partner secured by a 50% equity interest in the joint venture in a non-cash exchange for the Company funding the \$13.3 million aggregate contribution in cash.

	Six Months Ended June 30,	
	2019	2018
<i>(in thousands)</i>		
Notes receivable:		
Other assets, net	\$ 6,566	\$ —
Noncontrolling interest	(6,566)	—
Net	\$ —	\$ —

Refer to Note 2 for a schedule of the non-cash adjustments to the Company's condensed consolidated balance sheet as of January 1, 2019 as a result of the adoption of new accounting standards and Note 10 for a schedule of the non-cash recognition of right-of-use assets obtained in exchange for new operating lease obligations.

Restricted cash consists principally of escrow deposits for real estate taxes, property insurance, and capital expenditures required by certain lenders under mortgage debt agreements and deposits as security for self-insured retention risk under workers' compensation programs and property insurance programs. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sums to the total of the same such amounts shown in the condensed consolidated statements of cash flows.

<i>(in thousands)</i>	June 30, 2019	December 31, 2018
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 255,999	\$ 398,267
Restricted cash	26,256	27,683
Long-term restricted cash	42,704	24,268
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	\$ 324,959	\$ 450,218

13. Income Taxes

The difference between the Company's effective tax rate for the three and six months ended June 30, 2019 and June 30, 2018 was primarily due to the non-deductible impairment of goodwill that occurred in the three months ended March 31, 2018 and the adjustment from stock-based compensation, which was greater in the six months ended June 30, 2018 compared to the six months ended June 30, 2019.

The Company recorded an aggregate deferred federal, state, and local tax benefit of \$13.0 million and \$19.5 million for the three and six months ended June 30, 2019, respectively. The benefit includes \$13.0 million and \$21.2 million as a result of the operating losses for the three and six months ended June 30, 2019, respectively. The benefit was reduced by a \$1.7 million reduction in the deferred tax asset related to employee stock compensation for the six months ended June 30, 2019. The benefit for the three and six months ended June 30, 2019 is offset by increases in the valuation allowance of \$13.3 million and \$20.0 million, respectively. The change in the valuation allowance for the three and six months ended June 30, 2019 is the result of the anticipated reversal of future tax liabilities offset by future tax deduction. The Company recorded an aggregate deferred federal, state, and local tax benefit of \$46.4 million and \$55.9 million as a result of the operating loss for the three and six months ended June 30, 2018, which was offset by an increase in the valuation allowance of \$30.3 million and \$54.9 million, respectively.

The Company evaluates its deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. The Company's valuation allowance as of June 30, 2019 and December 31, 2018 was \$370.2 million and \$336.4 million, respectively.

The increase in the valuation allowance during the six months ended June 30, 2019 is comprised of multiple components. The increase includes \$13.8 million resulting from the adoption of ASC 842 and the related addition of future timing differences recorded in the three months ended March 31, 2019. An additional \$21.7 million of allowance was established against the current operating loss incurred during the six months ended June 30, 2019. Offsetting the increases was a decrease of \$1.7 million of

allowance as a result of removal of future timing differences related to employee stock compensation recorded in the three months ended March 31, 2019.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. The Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company plans to elect the real property trade or business exception with the 2018 tax return. As such, the Company is required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change impacts the current and future tax depreciation deductions and impacted the Company's valuation allowance accordingly. Additional information that may affect the Company's provisional amounts would include further clarification and guidance on how the Internal Revenue Service will implement tax reform and further clarification and guidance on how state taxing authorities will implement tax reform and the related effect on the Company's state and local income tax returns, state and local net operating losses, and corresponding valuation allowances.

The Company recorded interest charges related to its tax contingency reserve for cash tax positions for the three and six months ended June 30, 2019 and 2018 which are included in income tax expense or benefit for the period. As of June 30, 2019, tax returns for years 2014 through 2017 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

14. Revenue

Disaggregation of Revenue

The Company disaggregates its revenue from contracts with customers by payor source, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. See details on a reportable segment basis in the tables below.

Three Months Ended June 30, 2019					
<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 135,348	\$ 433,589	\$ 71,092	\$ 193	\$ 640,222
Government reimbursement	603	16,636	20,196	91,614	129,049
Other third-party payor programs	—	—	9,965	22,627	32,592
Total resident fee revenue	<u>\$ 135,951</u>	<u>\$ 450,225</u>	<u>\$ 101,253</u>	<u>\$ 114,434</u>	<u>\$ 801,863</u>

Three Months Ended June 30, 2018					
<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 158,405	\$ 503,806	\$ 73,392	\$ 157	\$ 735,760
Government reimbursement	888	18,221	21,379	90,605	131,093
Other third-party payor programs	—	—	10,025	19,091	29,116
Total resident fee revenue	<u>\$ 159,293</u>	<u>\$ 522,027</u>	<u>\$ 104,796</u>	<u>\$ 109,853</u>	<u>\$ 895,969</u>

Six Months Ended June 30, 2019					
<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 270,393	\$ 875,500	\$ 142,625	\$ 383	\$ 1,288,901
Government reimbursement	1,252	33,251	41,683	180,271	256,457
Other third-party payor programs	—	—	20,672	45,312	65,984
Total resident fee revenue	<u>\$ 271,645</u>	<u>\$ 908,751</u>	<u>\$ 204,980</u>	<u>\$ 225,966</u>	<u>\$ 1,611,342</u>

Six Months Ended June 30, 2018

<i>(in thousands)</i>	Independent Living	Assisted Living and Memory Care	CCRCs	Health Care Services	Total
Private pay	\$ 315,912	\$ 1,018,070	\$ 144,113	\$ 426	\$ 1,478,521
Government reimbursement	1,778	36,237	45,085	183,232	266,332
Other third-party payor programs	—	—	20,667	36,715	57,382
Total resident fee revenue	<u>\$ 317,690</u>	<u>\$ 1,054,307</u>	<u>\$ 209,865</u>	<u>\$ 220,373</u>	<u>\$ 1,802,235</u>

The Company has not further disaggregated management fee revenues and revenue for reimbursed costs incurred on behalf of managed communities as the economic factors affecting the nature, timing, amount, and uncertainty of revenue and cash flows do not significantly vary within each respective revenue category.

Contract Balances

Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance under the Company's independent living, assisted living, and memory care residency agreements. Resident fee revenue for standalone or certain health care services is generally billed monthly in arrears. Additionally, non-refundable community fees are generally billed and collected in advance or upon move-in of a resident under the Company's independent living, assisted living, and memory care residency agreements. Amounts of revenue that are collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. The Company had total deferred revenue (included within refundable fees and deferred revenue, deferred liabilities, and other liabilities within the condensed consolidated balance sheets) of \$81.7 million and \$106.4 million, including \$32.0 million and \$50.6 million of monthly resident fees billed and received in advance, as of June 30, 2019 and December 31, 2018, respectively. For the six months ended June 30, 2019 and 2018, the Company recognized \$72.7 million and \$68.9 million, respectively, of revenue that was included in the deferred revenue balance as of January 1, 2019 and 2018. The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

15. Segment Information

The Company has five reportable segments: Independent Living; Assisted Living and Memory Care; CCRCs; Health Care Services; and Management Services. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

Independent Living. The Company's Independent Living segment includes owned or leased communities that are primarily designed for middle to upper income seniors who desire an upscale residential environment providing the highest quality of service. The majority of the Company's independent living communities consist of both independent and assisted living units in a single community, which allows residents to age-in-place by providing them with a continuum of senior independent and assisted living services.

Assisted Living and Memory Care. The Company's Assisted Living and Memory Care segment includes owned or leased communities that offer housing and 24-hour assistance with activities of daily life to mid-acuity frail and elderly residents. Assisted living and memory care communities include both freestanding, multi-story communities and freestanding, single story communities. The Company also provides memory care services at freestanding memory care communities that are specially designed for residents with Alzheimer's and other dementias.

CCRCs. The Company's CCRCs segment includes large owned or leased communities that offer a variety of living arrangements and services to accommodate all levels of physical ability and health. Most of the Company's CCRCs have independent living, assisted living and skilled nursing available on one campus or within the immediate market, and some also include memory care and Alzheimer's services.

Health Care Services. The Company's Health Care Services segment includes the home health, hospice, and outpatient therapy services, as well as education and wellness programs, provided to residents of many of the Company's communities and to seniors living outside of the Company's communities. The Health Care Services segment does not include the skilled nursing and inpatient healthcare services provided in the Company's skilled nursing units, which are included in the Company's CCRCs segment.

Management Services. The Company's Management Services segment includes communities operated by the Company pursuant to management agreements. In some of the cases, the controlling financial interest in the community is held by third parties and, in other cases, the community is owned in a venture structure in which the Company has an ownership interest. Under the management agreements for these communities, the Company receives management fees as well as reimbursed expenses, which represent the reimbursement of expenses it incurs on behalf of the owners.

The accounting policies of the Company's reportable segments are the same as those described in the summary of significant accounting policies in Note 2.

The following table sets forth selected segment financial and operating data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Revenue:				
Independent Living ⁽¹⁾	\$ 135,951	\$ 159,293	\$ 271,645	\$ 317,690
Assisted Living and Memory Care ⁽¹⁾	450,225	522,027	908,751	1,054,307
CCRCs ⁽¹⁾	101,253	104,796	204,980	209,865
Health Care Services ⁽¹⁾	114,434	109,853	225,966	220,373
Management Services ⁽²⁾	217,594	259,231	450,159	540,199
Total revenue	\$ 1,019,457	\$ 1,155,200	\$ 2,061,501	\$ 2,342,434
Segment operating income: ⁽³⁾				
Independent Living	\$ 51,459	\$ 65,134	\$ 104,335	\$ 129,556
Assisted Living and Memory Care	133,144	169,737	273,843	346,275
CCRCs	17,847	23,819	39,484	48,482
Health Care Services	9,167	10,203	17,340	18,521
Management Services	15,449	17,071	31,192	35,752
Total segment operating income	227,066	285,964	466,194	578,586
General and administrative expense (including non-cash stock-based compensation expense)	57,576	62,907	113,887	144,342
Facility operating lease expense	67,689	81,960	136,357	162,360
Depreciation and amortization	94,024	116,116	190,912	230,371
Goodwill and asset impairment	3,769	16,103	4,160	446,466
Loss on facility lease termination and modification, net	1,797	146,467	2,006	146,467
Income (loss) from operations	\$ 2,211	\$ (137,589)	\$ 18,872	\$ (551,420)

	As of	
	June 30, 2019	December 31, 2018
<i>(in thousands)</i>		
Total assets:		
Independent Living	\$ 1,469,683	\$ 1,104,774
Assisted Living and Memory Care	4,293,648	3,684,170
CCRCs	792,344	707,819
Health Care Services	270,496	254,950
Corporate and Management Services	633,311	715,547
Total assets	\$ 7,459,482	\$ 6,467,260

- (1) All revenue is earned from external third parties in the United States.
- (2) Management services segment revenue includes management fees and reimbursements of costs incurred on behalf of managed communities.
- (3) Segment operating income is defined as segment revenues less segment facility operating expense (excluding depreciation and amortization) and costs incurred on behalf of managed communities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Certain statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "could," "would," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "believe," "project," "predict," "continue," "plan," "target" or other similar words or expressions. Although these forward looking statements are based on assumptions and expectations that we believe are reasonable, we can give no assurance that our assumptions or expectations will be attained and actual results and performance could differ materially from those projected. Factors which could have a material adverse effect on our operations and future prospects or which could cause events or circumstances to differ from the forward-looking statements include, but are not limited to, events which adversely affect the ability of seniors to afford resident fees and entrance fees, including downturns in the economy, national or local housing markets, consumer confidence or the equity markets and unemployment among family members; changes in reimbursement rates, methods or timing under governmental reimbursement programs including the Medicare and Medicaid programs; the impact of ongoing healthcare reform efforts; the effects of continued new senior housing construction and development, oversupply and increased competition; disruptions in the financial markets that affect our ability to obtain financing or extend or refinance debt as it matures and our financing costs; the risks associated with current global economic conditions and general economic factors such as inflation, the consumer price index, commodity costs, fuel and other energy costs, interest rates and tax rates; our ability to generate sufficient cash flow to cover required interest and long-term lease payments and to fund our planned capital projects; the effect of our indebtedness and long-term leases on our liquidity; the effect of our non-compliance with any of our debt or lease agreements (including the financial covenants contained therein), including the risk of lenders or lessors declaring a cross default in the event of our non-compliance with any such agreements and the risk of loss of our property securing leases and indebtedness due to any resulting lease terminations and foreclosure actions; the effect of our borrowing base calculations and our consolidated fixed charge coverage ratio on availability under our revolving credit facility; increased competition for or a shortage of personnel, wage pressures resulting from increased competition, low unemployment levels, minimum wage increases and changes in overtime laws, and union activity; failure to maintain the security and functionality of our information systems or to prevent a cybersecurity attack or breach; our ability to complete pending or expected disposition or other transactions on agreed upon terms or at all, including in respect of the satisfaction of closing conditions, the risk that regulatory approvals are not obtained or are subject to unanticipated conditions, and uncertainties as to the timing of closing, and our ability to identify and pursue any such opportunities in the future; our ability to obtain additional capital on terms acceptable to us; our ability to complete our capital expenditures in accordance with our plans; our ability to identify and pursue development, investment and acquisition opportunities and our ability to successfully integrate acquisitions; competition for the acquisition of assets; delays in obtaining regulatory approvals; risks associated with the lifecare benefits offered to residents of certain of our entrance fee CCRCs; terminations, early or otherwise, or non-renewal of management agreements; conditions of housing markets, regulatory changes and acts of nature in geographic areas where we are concentrated; terminations of our resident agreements and vacancies in the living spaces we lease; departures of key officers and potential disruption caused by changes in management; risks related to the implementation of our strategy, including initiatives undertaken to execute on our strategic priorities and their effect on our results; actions of activist stockholders; market conditions and capital allocation decisions that may influence our determination from time to time whether to purchase any shares under our existing share repurchase program and our ability to fund any repurchases; our ability to maintain consistent quality control; a decrease in the overall demand for senior housing; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination or resolution of complaints filed against us; the cost and difficulty of complying with increasing and evolving regulation; costs to respond to, and adverse determinations resulting from, government reviews, audits and investigations; unanticipated costs to comply with legislative or regulatory developments; as well as other risks detailed from time to time in our filings with the Securities and Exchange Commission, including those set forth under "Item 1A. Risk Factors" contained in our Annual Report on Form 10-K for the year ended December 31, 2018 and Part II, "Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in such SEC filings. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect management's views as of the date of this Quarterly Report on Form 10-Q. We cannot guarantee future results, levels of activity, performance or achievements, and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Overview

As of June 30, 2019, we are the largest operator of senior living communities in the United States based on total capacity, with 809 communities in 45 states and the ability to serve approximately 77,000 residents. We offer our residents access to a full continuum of services across the most attractive sectors of the senior living industry. We operate and manage independent living, assisted living, memory care, and continuing care retirement communities ("CCRCs"). We also offer a range of home health, hospice, and outpatient therapy services to residents of many of our communities and to seniors living outside of our communities.

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

Community Portfolio

As of June 30, 2019, we owned 336 communities (31,165 units), leased 335 communities (24,044 units), managed 17 communities (7,306 units) on behalf of unconsolidated ventures, and managed 121 communities (14,145 units) on behalf of third parties. During the next 12 months, we expect to close on the dispositions of five owned communities (889 units) classified as held for sale as of June 30, 2019, which resulted in \$46.3 million being recorded as assets held for sale and \$18.5 million of mortgage debt being included in the current portion of long-term debt within the condensed consolidated balance sheet with respect to such communities. This debt is expected to be repaid with the proceeds from the sales. Assets held for sale as of June 30, 2019 include five communities under contract, and we continue to market several other communities, as part of our real estate strategy announced in 2018. During the next 12 months we also anticipate terminations of certain of our management arrangements with third parties as we transition to new operators our interim management on formerly leased communities and our management on certain former unconsolidated ventures in which we sold our interest. The closings of the various pending and expected transactions are, or will be subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. However, there can be no assurance that the transactions will close or, if they do, when the actual closings will occur.

Completed Transactions and Impact of Dispositions on Results of Operations

During 2017 and 2018 we undertook an initiative to optimize our community portfolio under which we disposed of owned and leased communities and restructured leases. Further, in 2018 we evaluated our owned-community portfolio for opportunities to monetize select high-value communities. As a result of these initiatives, lease restructuring, expiration and termination activity, and other transactions, during the period of January 1, 2018 to June 30, 2019 we disposed of an aggregate of 30 owned communities (2,534 units) and our triple-net lease obligations on an aggregate of 97 communities (9,636 units) were terminated. During this period we also sold our ownership interests in five unconsolidated ventures and acquired six communities that we previously leased or managed. We agreed to manage a number of formerly leased communities on an interim basis until the communities have been transitioned to new managers, and during such interim periods those communities are reported in the Management Services segment.

Summaries of the significant transactions impacting the periods presented, and the impacts of dispositions of owned and leased communities on our results of operations, are included below. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2018 for more details regarding the terms of such transactions, including transactions we entered into with Ventas, Inc. ("Ventas"), Welltower Inc. ("Welltower") and HCP, Inc. ("HCP") during 2017 and 2018, which together restructured a significant portion of our triple-net lease obligations with our largest lessors.

Summaries of Completed Transactions

- *Dispositions of Owned Communities.* During the year ended December 31, 2018, we completed the sale of 22 owned communities (1,819 units) for cash proceeds of \$380.7 million, net of transaction costs. These dispositions included the sale of three communities during the six months ended June 30, 2018 for cash proceeds of \$12.8 million, net of associated debt and transaction costs, and for which we recognized a net gain on sale of assets of \$1.9 million. During the six months ended

June 30, 2019, we completed the sale of eight owned communities (715 units) for cash proceeds of \$39.0 million, net of associated debt and transaction costs, and for which we recognized a net gain on sale of assets of \$1.6 million and \$0.9 million for the three and six months ended June 30, 2019, respectively.

- *Welltower.* Pursuant to transactions we entered into with Welltower in June 2018, our triple-net lease obligations on 37 communities (4,095 units) were terminated effective June 30, 2018. We paid Welltower an aggregate lease termination fee of \$58.0 million, and we recognized a \$22.6 million loss on lease termination during the three months ended June 30, 2018. In addition, effective June 30, 2018, we sold our 20% equity interest in our Welltower RIDEA venture to Welltower for net proceeds of \$33.5 million and for which we recognized a \$14.7 million gain on sale during the three months ended June 30, 2018. We also elected not to renew two master leases with Welltower which matured on September 30, 2018 (11 communities; 1,128 units). In addition, the parties separately agreed to allow us to terminate leases with respect to, and to remove from the remaining Welltower leased portfolio, a number of communities with annual aggregate base rent up to \$5.0 million upon Welltower's sale of such communities, and we would receive a corresponding 6.25% rent credit on Welltower's disposition proceeds.
- *Ventas.* During the three months ended June 30, 2018, we recognized a \$125.7 million non-cash loss on lease modification in connection with our restructuring a portfolio of 128 communities that we leased from Ventas into a Master Lease and Security Agreement (the "Ventas Master Lease"), primarily for the extension of the triple-net lease obligations for communities with lease terms that were unfavorable to us given market conditions on the amendment date in exchange for modifications to the change of control provisions and financial covenant provisions of the community leases. Pursuant to the Ventas Master Lease, we have exercised our right to direct Ventas to market for sale 28 communities. Ventas is obligated to use commercially reasonable, diligent efforts to sell such communities on or before December 31, 2020 (subject to extension for regulatory purposes); provided, that Ventas' obligation to sell any such community is subject to Ventas' receiving a purchase price in excess of a mutually agreed upon minimum sale price and to certain other customary closing conditions. Upon any such sale, such communities will be removed from the Ventas Master Lease, and the annual minimum rent under the Ventas Master Lease will be reduced by the amount of the net sale proceeds received by Ventas multiplied by 6.25%. During the three months ended June 30, 2019, five (306 units) of the 28 communities identified were sold by Ventas and removed from the Ventas Master Lease, and the annual minimum rent was prospectively reduced by \$1.5 million.
- *HCP.* Pursuant to transactions we entered into with HCP in November 2017, during the three months ended June 30, 2018, we acquired five communities (858 units) from HCP, two of which we formerly leased, for an aggregate purchase price of \$242.8 million, and during the three months ended March 31, 2018, we acquired one community (137 units) for an aggregate purchase price of \$32.1 million. During the year ended December 31, 2018 leases with respect to 33 communities (3,123 units) were terminated, and such communities were removed from our master lease with HCP. In addition, during the three months ended March 31, 2018, HCP acquired our 10% ownership interest in our RIDEA venture with HCP for \$62.3 million and for which we recognized a \$41.7 million gain on sale. Management agreements for 35 communities with former unconsolidated ventures with HCP have been terminated by HCP since November 2017. We expect the termination of management agreements on two communities (190 units) to occur during the remainder of 2019, and we have recognized a \$9.3 million non-cash management contract termination gain, of which \$0.3 million and \$2.8 million was recognized during the three months ended June 30, 2019 and 2018, respectively, and \$0.8 million and \$5.1 million was recognized during the six months ended June 30, 2019 and 2018 respectively.
- *Blackstone.* During the three months ended September 30, 2018, leases for two communities owned by a former unconsolidated venture with affiliates of Blackstone Real Estate Advisors VIII L.P. were terminated, and we sold our 15% equity interest in the venture. We paid an aggregate fee of \$2.0 million to complete the multi-part transaction.

Summary of Financial Impact of Completed Dispositions

The following tables set forth, for the periods indicated, the amounts included within our consolidated financial data for the 124 communities that we disposed through sales and lease terminations during the period from April 1, 2018 to June 30, 2019 through the respective disposition dates:

Three Months Ended June 30, 2019			
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 135,951	\$ —	\$ 135,951
Assisted Living and Memory Care	450,225	2,176	448,049
CCRCs	101,253	—	101,253
Senior housing resident fees	\$ 687,429	\$ 2,176	\$ 685,253
Facility operating expense			
Independent Living	\$ 84,492	\$ —	\$ 84,492
Assisted Living and Memory Care	317,081	1,562	315,519
CCRCs	83,406	—	83,406
Senior housing facility operating expense	\$ 484,979	\$ 1,562	\$ 483,417
Cash facility lease payments	\$ 94,267	\$ 306	\$ 93,961

Three Months Ended June 30, 2018			
	Actual Results	Amounts Attributable to Completed Dispositions	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$ 159,293	\$ 29,241	\$ 130,052
Assisted Living and Memory Care	522,027	86,151	435,876
CCRCs	104,796	4,213	100,583
Senior housing resident fees	\$ 786,116	\$ 119,605	\$ 666,511
Facility operating expense			
Independent Living	\$ 94,159	\$ 17,016	\$ 77,143
Assisted Living and Memory Care	352,290	60,854	291,436
CCRCs	80,977	3,859	77,118
Senior housing facility operating expense	\$ 527,426	\$ 81,729	\$ 445,697
Cash facility lease payments	\$ 125,228	\$ 32,228	\$ 93,000

The following tables set forth, for the periods indicated, the amounts included within our consolidated financial data for the 127 communities that we disposed through sales and lease terminations during the period from January 1, 2018 to June 30, 2019 through the respective disposition dates:

Six Months Ended June 30, 2019			
		Actual Results	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$	271,645	\$ — \$ 271,645
Assisted Living and Memory Care		908,751	12,282 896,469
CCRCs		204,980	— 204,980
Senior housing resident fees	\$	1,385,376	\$ 12,282 \$ 1,373,094
Facility operating expense			
Independent Living	\$	167,310	\$ — \$ 167,310
Assisted Living and Memory Care		634,908	10,100 624,808
CCRCs		165,496	— 165,496
Senior housing facility operating expense	\$	967,714	\$ 10,100 \$ 957,614
Cash facility lease payments	\$	189,514	\$ 1,451 \$ 188,063

Six Months Ended June 30, 2018			
		Actual Results	Actual Results Less Amounts Attributable to Completed Dispositions
<i>(in thousands)</i>			
Resident fees			
Independent Living	\$	317,690	\$ 60,871 \$ 256,819
Assisted Living and Memory Care		1,054,307	178,267 876,040
CCRCs		209,865	10,705 199,160
Senior housing resident fees	\$	1,581,862	\$ 249,843 \$ 1,332,019
Facility operating expense			
Independent Living	\$	188,134	\$ 35,668 \$ 152,466
Assisted Living and Memory Care		708,032	125,423 582,609
CCRCs		161,383	9,917 151,466
Senior housing facility operating expense	\$	1,057,549	\$ 171,008 \$ 886,541
Cash facility lease payments	\$	255,483	\$ 66,935 \$ 188,548

The following table sets forth the number of communities and units in our senior housing segments disposed through sales and lease terminations during the six months ended June 30, 2019 and twelve months ended December 31, 2018:

	Six Months Ended June 30, 2019	Twelve Months Ended December 31, 2018
Number of communities		
Independent Living	—	17
Assisted Living and Memory Care	16	91
CCRCs	—	3
Total	16	111
Total units		
Independent Living	—	2,864
Assisted Living and Memory Care	1,322	7,437
CCRCs	—	547
Total	1,322	10,848

Other Recent Developments

Impact of New Lease Accounting Standard

We adopted the new lease accounting standard (ASC 842) effective January 1, 2019. Adoption of the new lease standard and its application to residency agreements and costs related thereto resulted in the recognition of additional non-cash resident fees and facility operating expense for the three and six months ended June 30, 2019. The result was a non-cash net impact to net income (loss) and Adjusted EBITDA of negative \$6.5 million and \$13.0 million for the three and six months ended June 30, 2019, respectively. For the full year 2019, we expect the non-cash net impact of adoption of the new lease standard and application to our residency agreements and costs related thereto to be negative \$27.0 million to net income (loss) and Adjusted EBITDA. Adoption of the new lease standard had no impact on the amount of net cash provided by (used in) operating activities and Adjusted Free Cash Flow for the three and six months ended June 30, 2019 and is not expected to have any impact on such measures for the full year.

Increased Competitive Pressures

During and since 2016 we have experienced an elevated rate of competitive new openings, with significant new competition opening in several of our markets, which has adversely affected our occupancy, revenues, results of operations, and cash flow. We expect the elevated rate of competitive new openings and pressures on our occupancy and rate growth to continue through 2019. Such increased level of new openings and oversupply, as well as lower levels of unemployment, generally have also contributed to increased competition for community leadership and personnel and wage pressures. We continue to address new competition by focusing on operations with the objective to ensure high customer satisfaction, retain key leadership, and actively engage district and regional management in community operations; enhancing our local and national marketing and public relations efforts; and evaluating current community position relative to competition and repositioning if necessary (e.g., services, amenities, programming and price). We also continue to invest above industry to improve the total rewards program and performance management, training, and development program for our community leaders and staff.

Planned Capital Expenditures

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

Program Max Initiative

During the six months ended June 30, 2019, we made continued progress on our Program Max initiative under which we expand, renovate, redevelop, and reposition certain of our existing communities where economically advantageous. During such period, we invested \$10.6 million on Program Max projects. We currently have 20 Program Max projects that have been approved, most of which have begun construction and are expected to generate 88 net new units.

Tax Reform

On December 22, 2017, the President signed the Tax Cuts and Jobs Act ("Tax Act") into law. The Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company plans to elect the real property trade or business exception with the 2018 tax return. As such, the Company is required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change impacts the current and future tax depreciation deductions and impacted the Company's valuation allowance accordingly. Additional information that may affect the Company's provisional amounts would include further clarification and guidance on how the Internal Revenue Service will implement tax reform and further clarification and guidance on how state taxing authorities will implement tax reform and the related effect on the Company's state and local income tax returns, state and local net operating losses, and corresponding valuation allowances.

Results of Operations

As of June 30, 2019 our total operations included 809 communities with a capacity to serve approximately 77,000 residents. As of that date we owned 336 communities (31,165 units), leased 335 communities (24,044 units), managed 17 communities (7,306 units) on behalf of unconsolidated ventures, and managed 121 communities (14,145 units) on behalf of third parties. The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The results of operations for any particular period are not necessarily indicative of results for any future period. Transactions completed during the period of January 1, 2018 to June 30, 2019 significantly affect the comparability of our results of operations, and summaries of such transactions and their impact on our results of operations are above under "Recent Transaction Activity and Impact to Results of Operations."

This section uses the operating measures defined below. Our adoption and application of the new lease accounting standard has impacted our results for the three and six months ended June 30, 2019, and will impact our results for the remaining 2019 periods, due to our recognition of additional resident fee revenue and facility operating expense, which is non-cash and is non-recurring in future years. To aid in comparability between periods, presentations of our results on a same community basis and RevPAR and RevPOR exclude the impact of the lease accounting standard.

- Operating results and data presented on a **same community basis** reflect results and data of the same store communities (utilizing our methodology for determining same store communities) and, for the 2019 period, exclude the additional resident fee revenue and facility operating expense recognized as a result of application of the new lease accounting standard under ASC 842.
- **RevPAR**, or average monthly senior housing resident fee revenue per available unit, is defined as resident fee revenue for the corresponding portfolio for the period (excluding Health Care Services segment revenue and entrance fee amortization, and, for the 2019 period, the additional resident fee revenue recognized as a result of the application of the new lease accounting standard under ASC 842), divided by the weighted average number of available units in the corresponding portfolio for the period, divided by the number of months in the period.
- **RevPOR**, or average monthly senior housing resident fee revenue per occupied unit, is defined as resident fee revenue for the corresponding portfolio for the period (excluding Health Care Services segment revenue and entrance fee amortization, and, for the 2019 period, the additional resident fee revenue recognized as a result of the application of the new lease accounting standard under ASC 842), divided by the weighted average number of occupied units in the corresponding portfolio for the period, divided by the number of months in the period.

This section includes the non-GAAP performance measure Adjusted EBITDA. See "Non-GAAP Financial Measures" below for our definition of the measure and other important information regarding such measure, including reconciliations to the most comparable GAAP measures. During the first quarter of 2019, we modified our definition of Adjusted EBITDA to exclude transaction and organizational restructuring costs, and amounts for all periods herein reflect application of the modified definition.

Comparison of Three Months Ended June 30, 2019 and 2018

Summary Operating Results

The following table summarizes our overall operating results for the three months ended June 30, 2019 and 2018.

(in thousands)	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Total revenue	\$ 1,019,457	\$ 1,155,200	\$ (135,743)	(11.8)%
Facility operating expense	590,246	627,076	(36,830)	(5.9)%
Net income (loss)	(56,055)	(165,509)	(109,454)	(66.1)%
Adjusted EBITDA	104,036	147,217	(43,181)	(29.3)%

The decrease in total revenue was primarily attributable to the disposition of 124 communities through sales of owned communities and lease terminations since the beginning of the prior year period, which resulted in \$117.4 million less in resident fees during the three months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by a 1.9% increase in same community RevPAR at the 650 communities we owned or leased during both full periods, comprised of a 3.3% increase in same community RevPOR and a 110 basis points decrease in same community weighted average occupancy. Additionally, management services revenue, including management fees and reimbursed costs incurred on behalf of managed communities, decreased \$41.6 million primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

The decrease in facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$80.2 million less in facility operating expense during the three months ended June 30, 2019 compared to the prior year period. The decrease was partially offset by a 5.5% increase in same community facility operating expense, which was primarily due to an increase in labor expense attributable to wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense of approximately \$5.3 million and \$11.8 million, respectively, during the second quarter of 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense excludes approximately \$4.9 million and \$11.0 million, respectively, of such additional revenue and expenses.

The improvement to net income (loss) was primarily attributable to a decrease in loss on facility lease termination and modification compared to the prior period, offset by a decrease in net gain on sale of assets and the revenue and facility operating expense factors noted above. We recognized a loss on lease termination and modification of \$146.5 million for the three months ended June 30, 2018 primarily as a result of agreements with Ventas and Welltower. Net gain on sale of assets was \$2.8 million for the three months ended June 30, 2019 compared to \$23.3 million for the prior year period.

The decrease in Adjusted EBITDA was primarily attributable to the revenue and facility operating expense factors noted above, offset by lower cash facility operating lease payments of \$15.0 million.

Operating Results - Senior Housing Segments

The following table summarizes the operating results and data of our three senior housing segments (Independent Living, Assisted Living and Memory Care, and CCRCs) on a combined basis for the three months ended June 30, 2019 and 2018, including operating results and data on a same community basis. See management's discussion and analysis of the operating results on an individual segment basis on the following pages.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 687,429	\$ 786,116	\$ (98,687)	(12.6)%
Facility operating expense	\$ 484,979	\$ 527,426	\$ (42,447)	(8.0)%
Number of communities (period end)	671	748	(77)	(10.3)%
Number of units (period end)	55,209	61,709	(6,500)	(10.5)%
Number of units (weighted average)	55,465	66,342	(10,877)	(16.4)%
RevPAR	\$ 4,097	\$ 3,948	\$ 149	3.8 %
Occupancy rate (weighted average)	83.5%	84.1%	(60bps)	n/a
RevPOR	\$ 4,909	\$ 4,692	\$ 217	4.6 %

Same Community Operating Results and Data

Resident fees	\$ 642,708	\$ 631,016	\$ 11,692	1.9 %
Facility operating expense	\$ 446,065	\$ 422,647	\$ 23,418	5.5 %
Number of communities	650	650	—	— %
Total average units	51,905	51,930	(25)	— %
RevPAR	\$ 4,125	\$ 4,048	\$ 77	1.9 %
Occupancy rate (weighted average)	83.7%	84.8%	(110bps)	n/a
RevPOR	\$ 4,930	\$ 4,773	\$ 157	3.3 %

Independent Living Segment

The following table summarizes the operating results and data for our Independent Living segment for the three months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 135,951	\$ 159,293	\$ (23,342)	(14.7)%
Facility operating expense	\$ 84,492	\$ 94,159	\$ (9,667)	(10.3)%
Number of communities (period end)	68	75	(7)	(9.3)%
Number of units (period end)	12,460	13,559	(1,099)	(8.1)%
Number of units (weighted average)	12,440	15,083	(2,643)	(17.5)%
RevPAR	\$ 3,592	\$ 3,520	\$ 72	2.0 %
Occupancy rate (weighted average)	89.1%	88.1%	100 bps	n/a
RevPOR	\$ 4,033	\$ 3,993	\$ 40	1.0 %

Same Community Operating Results and Data

Resident fees	\$ 122,192	\$ 118,595	\$ 3,597	3.0 %
Facility operating expense	\$ 73,870	\$ 69,887	\$ 3,983	5.7 %
Number of communities	63	63	—	— %
Total average units	11,335	11,358	(23)	(0.2)%
RevPAR	\$ 3,593	\$ 3,481	\$ 112	3.2 %
Occupancy rate (weighted average)	89.6%	89.1%	50 bps	n/a
RevPOR	\$ 4,009	\$ 3,905	\$ 104	2.7 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 17 communities since the beginning of the prior year period, which resulted in \$29.2 million less in resident fees during the three months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.7% increase in same community RevPOR and a 50 basis points increase in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$17.0 million less in facility operating expense during the three months ended June 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$1.9 million and \$3.1 million, respectively, during the second quarter of 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$1.8 million and \$2.8 million, respectively, of such additional revenue and expenses.

Assisted Living and Memory Care Segment

The following table summarizes the operating results and data for our Assisted Living and Memory Care segment for the three months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 450,225	\$ 522,027	\$ (71,802)	(13.8)%
Facility operating expense	\$ 317,081	\$ 352,290	\$ (35,209)	(10.0)%
Number of communities (period end)	577	645	(68)	(10.5)%
Number of units (period end)	36,175	41,266	(5,091)	(12.3)%
Number of units (weighted average)	36,451	44,403	(7,952)	(17.9)%
RevPAR	\$ 4,092	\$ 3,919	\$ 173	4.4 %
Occupancy rate (weighted average)	82.1%	82.9%	(80bps)	n/a
RevPOR	\$ 4,987	\$ 4,725	\$ 262	5.5 %

Same Community Operating Results and Data

Resident fees	\$ 431,283	\$ 423,557	\$ 7,726	1.8 %
Facility operating expense	\$ 297,836	\$ 282,838	\$ 14,998	5.3 %
Number of communities	564	564	—	—%
Total average units	34,933	34,934	(1)	—%
RevPAR	\$ 4,115	\$ 4,041	\$ 74	1.8 %
Occupancy rate (weighted average)	82.3%	83.8%	(150bps)	n/a
RevPOR	\$ 5,003	\$ 4,822	\$ 181	3.8 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 105 communities since the beginning of the prior year period, which resulted in \$84.0 million less in resident fees during the three months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 3.8% increase in same community RevPAR and a 150 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPAR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$59.3 million less in facility operating expense during the three months ended June 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$2.7 million and \$7.4 million, respectively, during the second quarter of 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$2.6 million and \$7.0 million, respectively, of such additional revenue and expenses.

CCRCs Segment

The following table summarizes the operating results and data for our CCRCs segment for the three months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 101,253	\$ 104,796	\$ (3,543)	(3.4)%
Facility operating expense	\$ 83,406	\$ 80,977	\$ 2,429	3.0 %
Number of communities (period end)	26	28	(2)	(7.1)%
Number of units (period end)	6,574	6,884	(310)	(4.5)%
Number of units (weighted average)	6,574	6,856	(282)	(4.1)%
RevPAR	\$ 5,081	\$ 5,079	\$ 2	— %
Occupancy rate (weighted average)	80.6%	83.0%	(240bps)	n/a
RevPOR	\$ 6,305	\$ 6,115	\$ 190	3.1 %

Same Community Operating Results and Data

Resident fees	\$ 89,233	\$ 88,864	\$ 369	0.4 %
Facility operating expense	\$ 74,359	\$ 69,922	\$ 4,437	6.3 %
Number of communities	23	23	—	— %
Total average units	5,637	5,638	(1)	— %
RevPAR	\$ 5,254	\$ 5,234	\$ 20	0.4 %
Occupancy rate (weighted average)	80.5%	82.4%	(190bps)	n/a
RevPOR	\$ 6,528	\$ 6,349	\$ 179	2.8 %

The decrease in the segment's resident fees was primarily attributable to the disposition of two communities since the beginning of the prior year period, which resulted in \$4.2 million less in resident fees during the three months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.8% increase in same community RevPAR and a 190 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPAR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets.

The increase in the segment's facility operating expense was primarily attributable to an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period. The increase in facility operating expense was partially offset by the disposition of communities since the beginning of the prior year period, which resulted in \$3.9 million less in facility operating expense during the three months ended June 30, 2019 compared to the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$0.7 million and \$1.3 million, respectively, during the second quarter of 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$0.6 million and \$1.1 million, respectively, of such additional revenue and expenses.

Operating Results - Health Care Services Segment

The following table summarizes the operating results and data for our Health Care Services segment for the three months ended June 30, 2019 and 2018.

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 114,434	\$ 109,853	\$ 4,581	4.2 %
Facility operating expense	\$ 105,267	\$ 99,650	\$ 5,617	5.6 %
Home health average daily census	15,966	15,238	728	4.8 %
Hospice average daily census	1,540	1,337	203	15.2 %
Outpatient therapy treatment codes	169,924	176,065	(6,141)	(3.5)%

The increase in the segment's resident fees was primarily attributable to an increase in volume for hospice services and an increase in home health average daily census, offset by unfavorable case-mix and community dispositions.

The increase in the segment's facility operating expense was primarily attributable to an increase in labor costs arising from wage rate increases and the expansion of our hospice services.

Operating Results - Management Services Segment

The following table summarizes the operating results and data for our Management Services segment for the three months ended June 30, 2019 and 2018.

	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Management fees	\$ 15,449	\$ 17,071	\$ (1,622)	(9.5)%
Reimbursed costs incurred on behalf of managed communities	\$ 202,145	\$ 242,160	\$ (40,015)	(16.5)%
Number of communities (period end)	138	240	(102)	(42.5)%
Number of units (period end)	21,451	33,176	(11,725)	(35.3)%
Number of units (weighted average)	22,464	30,422	(7,958)	(26.2)%
Occupancy rate (weighted average)	82.8%	83.6%	(80bps)	n/a

The decrease in management fees was primarily attributable to the transition of management arrangements on 80 net communities since the beginning of the prior year period, generally for interim management arrangements on formerly leased or owned communities and management arrangements on certain former unconsolidated ventures in which we sold our interest. Management fees of \$15.4 million for the three months ended June 30, 2019 include \$1.6 million of management fees attributable to communities for which our management agreements were terminated during such period and approximately \$1.7 million of management fees attributable to approximately 35 communities that, as of June 30, 2019, we expect the terminations of our management agreements to occur in the next year, including interim management arrangements on formerly leased communities and management arrangements on certain former unconsolidated ventures in which we sold our interest.

The decrease in reimbursed costs incurred on behalf of managed communities was primarily attributable to terminations of management agreements subsequent to the beginning of the prior year period.

Operating Results - Other Income and Expense Items

The following table summarizes other income and expense items in our operating results for the three months ended June 30, 2019 and 2018.

(in thousands)	Three Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
General and administrative expense	\$ 57,576	\$ 62,907	\$ (5,331)	(8.5)%
Facility operating lease expense	67,689	81,960	(14,271)	(17.4)%
Depreciation and amortization	94,024	116,116	(22,092)	(19.0)%
Goodwill and asset impairment	3,769	16,103	(12,334)	(76.6)%
Loss on facility lease termination and modification, net	1,797	146,467	(144,670)	(98.8)%
Costs incurred on behalf of managed communities	202,145	242,160	(40,015)	(16.5)%
Interest income	2,813	2,941	(128)	(4.4)%
Interest expense	(62,828)	(73,901)	(11,073)	(15.0)%
Debt modification and extinguishment costs	(2,672)	(9)	2,663	NM
Equity in loss of unconsolidated ventures	(991)	(1,324)	(333)	(25.2)%
Gain on sale of assets, net	2,846	23,322	(20,476)	(87.8)%
Other non-operating income	3,199	5,505	(2,306)	(41.9)%
Benefit (provision) for income taxes	(633)	15,546	(16,179)	NM

General and Administrative Expense. The decrease in general and administrative expense was primarily attributable to a decrease in transaction and organizational restructuring costs. Transaction and organizational restructuring costs decreased \$4.4 million compared to the prior period, to \$0.6 million for the three months ended June 30, 2019. Transaction costs include those directly related to acquisition, disposition, financing, and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance and retention costs. For the remainder of 2019 we expect to incur additional transaction costs related to stockholder relations advisory matters.

Facility Operating Lease Expense. The decrease in facility operating lease expense was primarily due to lease termination activity since the beginning of the prior year quarter.

Depreciation and Amortization. The decrease in depreciation and amortization expense was primarily due to disposition activity through sales and lease terminations since the beginning of the prior year quarter.

Goodwill and Asset Impairment. During the current year period, we recorded \$3.8 million of non-cash impairment charges, primarily for management contract intangible assets associated with terminated contracts. During the prior year period, we recorded \$16.1 million of non-cash impairment charges. The prior year period impairment charges primarily consisted of a \$9.2 million decrease in the estimated selling prices of assets held for sale and a \$6.9 million impairment of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment. See Note 5 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information about the impairment charges.

Loss on Facility Lease Termination and Modification, Net. During the current year period, we recorded a \$1.8 million loss on facility lease termination and modification, net for the termination of leases for seven communities. The decrease in loss on facility lease termination and modification, net was primarily due to a \$125.7 million loss on the restructuring of community leases with Ventas and a \$22.6 million loss on lease termination activity with Welltower during the three months ended June 30, 2018.

Costs Incurred on Behalf of Managed Communities. The decrease in costs incurred on behalf of managed communities was primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

Interest Expense. The decrease in interest expense was primarily due to financing lease termination activity and the repayment of debt since the beginning of the prior year period.

Gain on Sale of Assets, Net. The decrease in gain on sale of assets, net was primarily due to a \$16.9 million gain on sale of our investments in unconsolidated ventures and a \$6.5 million gain on sale of three communities during the prior year period.

Benefit (Provision) for Income Taxes. The difference between our effective tax rate for the three months ended June 30, 2019 and 2018 was primarily due to an increase in the full year valuation allowance projected in 2019 as compared to 2018.

We recorded an aggregate deferred federal, state, and local tax benefit of \$13.0 million as a result of the operating loss for the three months ended June 30, 2019, offset by an increase in the valuation allowance of \$13.3 million. The change in the valuation allowance for the three months ended June 30, 2019 resulted from anticipated reversal of future tax liabilities offset by future tax deductions. We recorded an aggregate deferred federal, state, and local tax benefit of \$46.4 million as a result of the operating loss for the three months ended June 30, 2018, which was offset by an increase in the valuation allowance of \$30.3 million.

We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of June 30, 2019 and December 31, 2018 was \$370.2 million and \$336.4 million, respectively.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the three months ended June 30, 2019 and 2018 which are included in provision for income tax for the period. Tax returns for years 2014 through 2017 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Operating Results - Unconsolidated Ventures

The Company's proportionate share of Adjusted EBITDA of unconsolidated ventures was \$10.9 million for the three months ended June 30, 2019, which represented a decrease of 22.9% from the three months ended June 30, 2018 primarily attributable to the sale of our interest in four unconsolidated ventures since the beginning of the prior year quarter.

Comparison of Six Months Ended June 30, 2019 and 2018

Summary Operating Results

The following table summarizes our overall operating results for the six months ended June 30, 2019 and 2018.

<i>(in thousands)</i>	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Total revenue	\$ 2,061,501	\$ 2,342,434	\$ (280,933)	(12.0)%
Facility operating expense	1,176,340	1,259,401	(83,061)	(6.6)%
Net income (loss)	(98,661)	(622,743)	(524,082)	(84.2)%
Adjusted EBITDA	220,619	294,373	(73,754)	(25.1)%

The decrease in total revenue was primarily attributable to the disposition of 127 communities through sales of owned communities and lease terminations since the beginning of the prior year period, which resulted in \$237.6 million less in resident fees during the six months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by a 1.8% increase in same community RevPAR at the 650 communities we owned or leased during both full periods, comprised of a 3.2% increase in same community RevPOR and a 120 basis points decrease in same community weighted average occupancy. Additionally, management services revenue, including management fees and reimbursed costs incurred on behalf of managed communities, decreased \$90.0 million primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

The decrease in facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$160.9 million less in facility operating expense during the six months ended June 30, 2019 compared to the prior year period. The decrease was partially offset by a 4.9% increase in same community facility operating expense, which was primarily due to an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense of approximately \$8.1 million and \$21.0 million, respectively, during the six months ended June 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense excludes approximately \$7.4 million and \$19.5 million, respectively, of such additional revenue and expenses.

The improvement to net income (loss) was primarily attributable to decreases in goodwill and asset impairment expense and in loss on facility lease termination and modification compared to the prior period, offset by a decrease in net gain on sale of assets and the revenue and facility operating expense factors noted above. Goodwill and asset impairment expense was \$4.2 million for the six months ended June 30, 2019 compared to \$446.5 million for the prior year period. We recognized a loss on lease termination and modification of \$146.5 million for the six months ended June 30, 2018 primarily as a result of agreements with Ventas and Welltower. Net gain on sale of assets was \$2.1 million for the six months ended June 30, 2019 compared to a net gain on sale of assets of \$66.8 million for the prior year period.

The decrease in Adjusted EBITDA was primarily attributable to the revenue and facility operating expense factors noted above, offset by lower general and administrative expenses (excluding non-cash stock-based compensation expense and transaction and organizational restructuring costs) of \$7.1 million and lower cash facility operating lease payments of \$31.5 million.

Operating Results - Senior Housing Segments

The following table summarizes the operating results and data of our three senior housing segments (Independent Living, Assisted Living and Memory Care, and CCRCs) on a combined basis for the six months ended June 30, 2019 and 2018 including operating results and data on a same community basis. See management's discussion and analysis of the operating results on an individual segment basis on the following pages.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 1,385,376	\$ 1,581,862	\$ (196,486)	(12.4)%
Facility operating expense	\$ 967,714	\$ 1,057,549	\$ (89,835)	(8.5)%
Number of communities (period end)	671	748	(77)	(10.3)%
Number of units (period end)	55,209	61,709	(6,500)	(10.5)%
Number of units (weighted average)	55,963	66,450	(10,487)	(15.8)%
RevPAR	\$ 4,100	\$ 3,965	\$ 135	3.4 %
Occupancy rate (weighted average)	83.5%	84.3%	(80bps)	n/a
RevPOR	\$ 4,909	\$ 4,705	\$ 204	4.3 %

Same Community Operating Results and Data

Resident fees	\$ 1,290,900	\$ 1,269,179	\$ 21,721	1.7 %
Facility operating expense	\$ 885,819	\$ 844,053	\$ 41,766	4.9 %
Number of communities	650	650	—	— %
Total average units	51,901	51,931	(30)	(0.1)%
RevPAR	\$ 4,143	\$ 4,071	\$ 72	1.8 %
Occupancy rate (weighted average)	83.9%	85.1%	(120bps)	n/a
RevPOR	\$ 4,938	\$ 4,785	\$ 153	3.2 %

Independent Living Segment

The following table summarizes the operating results and data for our Independent Living segment for the six months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 271,645	\$ 317,690	\$ (46,045)	(14.5)%
Facility operating expense	\$ 167,310	\$ 188,134	\$ (20,824)	(11.1)%
Number of communities (period end)	68	75	(7)	(9.3)%
Number of units (period end)	12,460	13,559	(1,099)	(8.1)%
Number of units (weighted average)	12,435	15,064	(2,629)	(17.5)%
RevPAR	\$ 3,597	\$ 3,515	\$ 82	2.3 %
Occupancy rate (weighted average)	89.4%	87.9%	150 bps	n/a
RevPOR	\$ 4,023	\$ 3,998	\$ 25	0.6 %

Same Community Operating Results and Data

Resident fees	\$ 244,649	\$ 237,046	\$ 7,603	3.2 %
Facility operating expense	\$ 146,041	\$ 139,302	\$ 6,739	4.8 %
Number of communities	63	63	—	— %
Total average units	11,331	11,358	(27)	(0.2)%
RevPAR	\$ 3,599	\$ 3,479	\$ 120	3.4 %
Occupancy rate (weighted average)	89.9%	88.9%	100 bps	n/a
RevPOR	\$ 4,003	\$ 3,912	\$ 91	2.3 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 17 communities since the beginning of the prior year period, which resulted in \$60.9 million less in resident fees during the six months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.3% increase in same community RevPAR and a 100 basis points increase in same community weighted average occupancy. The increase in the segment's same community RevPOR was primarily the result of in-place rent increases. Additionally, the decrease in resident fees was partially offset by \$3.5 million of additional revenue for one community acquired subsequent to the beginning of the prior year period.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$35.7 million less in facility operating expense during the six months ended June 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period. Additionally, the decrease in facility operating expense was partially offset by \$2.0 million of additional facility operating expense for one community acquired subsequent to the beginning of the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$3.3 million and \$5.7 million, respectively, during the six months ended June 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$3.0 million and \$5.3 million, respectively, of such additional revenue and expenses.

Assisted Living and Memory Care Segment

The following table summarizes the operating results and data for our Assisted Living and Memory Care segment for the six months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 908,751	\$ 1,054,307	\$ (145,556)	(13.8)%
Facility operating expense	\$ 634,908	\$ 708,032	\$ (73,124)	(10.3)%
Number of communities (period end)	577	645	(68)	(10.5)%
Number of units (period end)	36,175	41,266	(5,091)	(12.3)%
Number of units (weighted average)	36,964	44,588	(7,624)	(17.1)%
RevPAR	\$ 4,081	\$ 3,941	\$ 140	3.6 %
Occupancy rate (weighted average)	81.8%	83.2%	(140bps)	n/a
RevPOR	\$ 4,987	\$ 4,738	\$ 249	5.3 %

Same Community Operating Results and Data

Resident fees	\$ 865,307	\$ 852,475	\$ 12,832	1.5 %
Facility operating expense	\$ 592,043	\$ 565,404	\$ 26,639	4.7 %
Number of communities	564	564	—	— %
Total average units	34,933	34,935	(2)	— %
RevPAR	\$ 4,128	\$ 4,067	\$ 61	1.5 %
Occupancy rate (weighted average)	82.4%	84.2%	(180bps)	n/a
RevPOR	\$ 5,015	\$ 4,833	\$ 182	3.8 %

The decrease in the segment's resident fees was primarily attributable to the disposition of 107 communities since the beginning of the prior year period, which resulted in \$166.0 million less in resident fees during the six months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 3.8% increase in same community RevPAR and a 180 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPAR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets. Additionally, the decrease in resident fees was partially offset by \$1.7 million of additional revenue for two communities acquired subsequent to the beginning of the prior year period.

The decrease in the segment's facility operating expense was primarily attributable to the disposition of communities since the beginning of the prior year period, which resulted in \$115.3 million less in facility operating expense during the six months ended June 30, 2019 compared to the prior year period. The decrease in facility operating expense was partially offset by an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period. Additionally, the decrease in facility operating expense was partially offset by \$1.3 million of additional facility operating expense for two communities acquired subsequent to the beginning of the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$3.6 million and \$12.8 million, respectively, during the six months ended June 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$3.4 million and \$12.1 million, respectively, of such additional revenue and expenses.

CCRCs Segment

The following table summarizes the operating results and data for our CCRCs segment for the six months ended June 30, 2019 and 2018, including operating results and data on a same community basis.

(in thousands, except communities, units, occupancy, RevPAR, and RevPOR)

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 204,980	\$ 209,865	\$ (4,885)	(2.3)%
Facility operating expense	\$ 165,496	\$ 161,383	\$ 4,113	2.5 %
Number of communities (period end)	26	28	(2)	(7.1)%
Number of units (period end)	6,574	6,884	(310)	(4.5)%
Number of units (weighted average)	6,564	6,798	(234)	(3.4)%
RevPAR	\$ 5,156	\$ 5,125	\$ 31	0.6 %
Occupancy rate (weighted average)	81.7%	83.5%	(180bps)	n/a
RevPOR	\$ 6,308	\$ 6,137	\$ 171	2.8 %

Same Community Operating Results and Data

Resident fees	\$ 180,944	\$ 179,658	\$ 1,286	0.7 %
Facility operating expense	\$ 147,735	\$ 139,347	\$ 8,388	6.0 %
Number of communities	23	23	—	— %
Total average units	5,637	5,638	(1)	— %
RevPAR	\$ 5,327	\$ 5,291	\$ 36	0.7 %
Occupancy rate (weighted average)	81.6%	83.1%	(150bps)	n/a
RevPOR	\$ 6,531	\$ 6,366	\$ 165	2.6 %

The decrease in the segment's resident fees was primarily attributable to the disposition of three communities since the beginning of the prior year period, which resulted in \$10.7 million less in resident fees during the six months ended June 30, 2019 compared to the prior year period. The decrease in resident fees was partially offset by the increase in the segment's same community RevPAR, comprised of a 2.6% increase in same community RevPAR and a 150 basis points decrease in same community weighted average occupancy. The increase in the segment's same community RevPAR was primarily the result of in-place rent increases. The decrease in the segment's same community weighted average occupancy reflects the impact of new competition in our markets. Additionally, the decrease in resident fees was partially offset by \$4.0 million of additional revenue for one community acquired subsequent to the beginning of the prior year period.

The increase in the segment's facility operating expense was primarily attributable to an increase in the segment's same community facility operating expense, including an increase in labor expense arising from wage rate increases and increased use of overtime. There was also an increase in advertising, repairs and maintenance, and insurance costs during the period. Additionally, there was \$2.2 million of additional facility operating expense for one community acquired subsequent to the beginning of the prior year period. The increase in facility operating expense was partially offset by the disposition of communities since the beginning of the prior year period, which resulted in \$9.9 million less in facility operating expense during the six months ended June 30, 2019 compared to the prior year period.

In addition to the foregoing factors, we recognized additional resident fee revenue and additional facility operating expense for this segment of approximately \$1.1 million and \$2.5 million, respectively, during the six months ended June 30, 2019 as a result of the application of the new lease accounting standard effective January 1, 2019. Same community resident fee revenue and facility operating expense for this segment excludes approximately \$1.0 million and \$2.1 million, respectively, of such additional revenue and expenses.

Operating Results - Health Care Services Segment

The following table summarizes the operating results and data for our Health Care Services segment for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Resident fees	\$ 225,966	\$ 220,373	\$ 5,593	2.5 %
Facility operating expense	\$ 208,626	\$ 201,852	\$ 6,774	3.4 %
Home health average daily census	15,935	15,367	568	3.7 %
Hospice average daily census	1,485	1,319	166	12.6 %
Outpatient therapy treatment codes	328,467	343,325	(14,858)	(4.3)%

The increase in the segment's resident fees was primarily attributable to an increase in volume for hospice services. Home health revenue also increased due to higher average daily census, offset by unfavorable case-mix and community dispositions.

The increase in the segment's facility operating expense was primarily attributable to an increase in labor costs arising from wage rate increases and the expansion of our hospice services.

Operating Results - Management Services Segment

The following table summarizes the operating results and data for our Management Services segment for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
Management fees	\$ 31,192	\$ 35,752	\$ (4,560)	(12.8)%
Reimbursed costs incurred on behalf of managed communities	\$ 418,967	\$ 504,447	\$ (85,480)	(16.9)%
Number of communities (period end)	138	240	(102)	(42.5)%
Number of units (period end)	21,451	33,176	(11,725)	(35.3)%
Number of units (weighted average)	23,755	32,060	(8,305)	(25.9)%
Occupancy rate (weighted average)	82.9%	83.9%	(100bps)	n/a

The decrease in management fees was primarily attributable to the transition of management arrangements on 91 net communities since the beginning of the prior year period, generally for interim management arrangements on formerly leased or owned communities and management arrangements on certain former unconsolidated ventures in which we sold our interest. Management fees of \$31.2 million for the six months ended June 30, 2019 include \$3.9 million of management fees attributable to communities for which our management agreements were terminated during such period and approximately \$3.0 million of management fees attributable to approximately 35 communities that, as of June 30, 2019, we expect the terminations of our management agreements to occur in the next year, including interim management arrangements on formerly leased communities and management arrangements on certain former unconsolidated ventures in which we sold our interest.

The decrease in reimbursed costs incurred on behalf of managed communities was primarily attributable to terminations of management agreements subsequent to the beginning of the prior year period.

Operating Results - Other Income and Expense Items

The following table summarizes other income and expense items in our operating results for the six months ended June 30, 2019 and 2018.

(in thousands)	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
General and administrative expense	\$ 113,887	\$ 144,342	\$ (30,455)	(21.1)%
Facility operating lease expense	136,357	162,360	(26,003)	(16.0)%
Depreciation and amortization	190,912	230,371	(39,459)	(17.1)%
Goodwill and asset impairment	4,160	446,466	(442,306)	(99.1)%
Loss on facility lease termination and modification, net	2,006	146,467	(144,461)	(98.6)%
Costs incurred on behalf of managed communities	418,967	504,447	(85,480)	(16.9)%
Interest income	5,897	5,924	(27)	(0.5)%
Interest expense	(126,193)	(146,441)	(20,248)	(13.8)%
Debt modification and extinguishment costs	(2,739)	(44)	2,695	NM
Equity in loss of unconsolidated ventures	(1,517)	(5,567)	(4,050)	(72.8)%
Gain on sale of assets, net	2,144	66,753	(64,609)	(96.8)%
Other non-operating income	6,187	8,091	(1,904)	(23.5)%
Benefit (provision) for income taxes	(1,312)	(39)	(1,273)	NM

General and Administrative Expense. The decrease in general and administrative expense was primarily attributable to a decrease in organizational restructuring costs and salaries and wages expense as a result of a reduction in our corporate associate headcount since the beginning of the prior year period as we scaled our general and administrative costs in connection with community dispositions. Transaction and organizational restructuring costs decreased \$21.1 million compared to the prior period, to \$1.1 million for the six months ended June 30, 2019.

Facility Operating Lease Expense. The decrease in facility operating lease expense was primarily due to lease termination activity since the beginning of the prior year quarter.

Depreciation and Amortization. The decrease in depreciation and amortization expense was primarily due to disposition activity through sales and lease terminations since the beginning of the prior year.

Goodwill and Asset Impairment. During the current year period, we recorded \$4.2 million of non-cash impairment charges, primarily for management contract intangible assets associated with terminated contracts. During the prior year period, we recorded \$446.5 million of non-cash impairment charges. The prior year period impairment charges primarily consisted of \$351.7 million of goodwill impairment within the Assisted Living and Memory Care segment, \$47.7 million of impairment of property, plant and equipment and leasehold intangibles for certain communities, primarily in the Assisted Living and Memory Care segment, and \$33.4 million of impairment of our investments in unconsolidated ventures. See Note 5 to the condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information about the impairment charges.

Loss on Facility Lease Termination and Modification, Net. During the current year period, we recorded a \$2.0 million loss on facility lease termination and modification, net for the termination of leases for eight communities. The decrease in loss on facility lease termination and modification, net was primarily due to a \$125.7 million loss on the restructuring of community leases with Ventas, and a \$22.6 million loss on lease termination activity with Welltower during the three months ended June 30, 2018.

Costs Incurred on Behalf of Managed Communities. The decrease in costs incurred on behalf of managed communities was primarily due to terminations of management agreements subsequent to the beginning of the prior year period.

Interest Expense. The decrease in interest expense was primarily due to financing lease termination activity and the repayment of debt since the beginning of the prior year period.

Equity in Loss of Unconsolidated Ventures. The decrease in equity in loss of unconsolidated ventures was primarily due to the sale of investments in unconsolidated ventures since the beginning of the prior year period.

Gain on Sale of Assets, Net. The decrease in gain on sale of assets, net was primarily due to a \$59.1 million gain on sale of our investments in unconsolidated ventures and an \$8.4 million gain on sale of six communities during the prior year period.

Benefit (Provision) for Income Taxes. The difference between our effective tax rate for the six months ended June 30, 2019 and 2018 was primarily due to the non-deductible impairment of goodwill that occurred in the six months ended June 30, 2018 and the adjustment from stock-based compensation which was greater in the six months ended June 30, 2018 compared to the six months ended June 30, 2019.

We recorded an aggregate deferred federal, state, and local tax benefit of \$21.2 million as a result of the operating loss for the six months ended June 30, 2019, offset by an increase in the valuation allowance of \$21.7 million. The change in the valuation allowance for the six months ended June 30, 2019 resulted from anticipated reversal of future tax liabilities offset by future tax deductions. We recorded an aggregate deferred federal, state, and local tax benefit of \$55.9 million as a result of the operating loss for the six months ended June 30, 2018, which was offset by an increase in the valuation allowance of \$54.9 million.

We evaluate our deferred tax assets each quarter to determine if a valuation allowance is required based on whether it is more likely than not that some portion of the deferred tax asset would not be realized. Our valuation allowance as of June 30, 2019 and December 31, 2018 was \$370.2 million and \$336.4 million, respectively.

We recorded interest charges related to our tax contingency reserve for cash tax positions for the three months ended June 30, 2019 and 2018 which are included in provision for income tax for the period. Tax returns for years 2014 through 2017 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

Operating Results - Unconsolidated Ventures

The Company's proportionate share of Adjusted EBITDA of unconsolidated ventures was \$22.2 million for the six months ended June 30, 2019, which represented a decrease of 28.1% from the six months ended June 30, 2018 primarily attributable to the sale of our interest in five unconsolidated ventures since the beginning of the prior year period.

Liquidity and Capital Resources

This section includes the non-GAAP liquidity measure Adjusted Free Cash Flow. See "Non-GAAP Financial Measures" below for our definition of the measure and other important information regarding such measure, including reconciliations to the most comparable GAAP measures. During the first quarter of 2019, we modified our definition of Adjusted Free Cash Flow to no longer adjust net cash provided by (used in) operating activities for changes in working capital items other than prepaid insurance premiums financed with notes payable and lease liability for lease termination and modification. Amounts for all periods herein reflect application of the modified definition.

Liquidity and Indebtedness

The following is a summary of cash flows from operating, investing, and financing activities, as reflected in the consolidated statements of cash flows, and our Adjusted Free Cash Flow and proportionate share of Adjusted Free Cash Flow of unconsolidated ventures:

	Six Months Ended June 30,		Increase (Decrease)	
	2019	2018	Amount	Percent
<i>(in thousands)</i>				
Net cash provided by (used in) operating activities	\$ 59,119	\$ 98,584	\$ (39,465)	(40.0)%
Net cash provided by (used in) investing activities	(80,299)	11,512	(91,811)	NM
Net cash provided by (used in) financing activities	(104,079)	(201,980)	97,901	48.5 %
Net (decrease) increase in cash, cash equivalents and restricted cash	(125,259)	(91,884)	(33,375)	36.3 %
Cash, cash equivalents and restricted cash at beginning of period	450,218	282,546	167,672	59.3 %
Cash, cash equivalents and restricted cash at end of period	\$ 324,959	\$ 190,662	\$ 134,297	70.4 %
Adjusted Free Cash Flow	\$ (63,340)	\$ 27,392	\$ (90,732)	NM
Brookdale's proportionate share of Adjusted Free Cash Flow of unconsolidated ventures	12,342	15,386	(3,044)	(19.8)%

The decrease in net cash provided by (used in) operating activities was attributable primarily to the impact of disposition activity, through sales and lease terminations, since the beginning of the prior year period, an increase in facility operating expense at the communities operated during both full periods, lower revenue collected in advance due to quarter-end timing, and an increase in working capital liabilities paid during the current year period. These changes were partially offset by \$46.6 million of cash paid to terminate community operating leases during the prior year period.

The change in net cash provided by (used in) investing activities was primarily attributable to a \$218.3 million decrease in proceeds from sales of marketable securities, purchases of \$98.1 million of marketable securities during the current year period, and a \$78.5 million decrease in net proceeds from the sale of assets. These changes were partially offset by \$271.3 million of cash paid for the acquisition of communities during the prior year period and a \$30.2 million increase in cash proceeds from notes receivable during the current period.

The change in net cash provided by (used in) financing activities was primarily attributable to a \$228.2 million decrease in repayment of debt and financing lease obligations compared to the prior year period, including the impact of our cash settlement of the aggregate principal amount of the \$316.3 million of 2.75% convertible senior notes during June 2018, and \$10.5 million of cash paid to terminate community financing leases during the prior year period. These changes were partially offset by a \$121.7 million decrease in debt proceeds compared to the prior year period and \$18.4 million of cash paid during the current year period for share repurchases.

The decrease in Adjusted Free Cash Flow was primarily attributable to a \$31.6 million increase in non-development capital expenditures, net, the impact of disposition activity, an increase in facility operating expense at the communities operated during both full periods, and changes in working capital. The decrease in our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures was primarily attributable to the sale of our interest in five unconsolidated ventures since the beginning of the prior year.

Our principal sources of liquidity have historically been from:

- cash balances on hand, cash equivalents and marketable securities;
- cash flows from operations;
- proceeds from our credit facilities;
- funds generated through unconsolidated venture arrangements;
- proceeds from mortgage financing, refinancing of various assets or sale-leaseback transactions;
- funds raised in the debt or equity markets; and
- proceeds from the disposition of assets.

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

Our liquidity requirements have historically arisen from:

- working capital;
- operating costs such as employee compensation and related benefits, severance costs, general and administrative expense, and supply costs;
- debt service and lease payments;
- acquisition consideration, lease termination and restructuring costs, and transaction and integration costs;
- capital expenditures and improvements, including the expansion, renovation, redevelopment, and repositioning of our current communities, and the development of new communities;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorizations;
- other corporate initiatives (including integration, information systems, branding, and other strategic projects); and
- prior to 2009, dividend payments.

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

- working capital;
- operating costs such as employee compensation and related benefits, general and administrative expense, and supply costs;
- debt service and lease payments;
- acquisition consideration, including the acquisition of certain leased communities under purchase option provisions;
- transaction costs and expansion of our healthcare services;
- capital expenditures and improvements, including the expansion, renovation, redevelopment, and repositioning of our existing communities;
- cash funding needs of our unconsolidated ventures for operating, capital expenditure, and financing needs;
- cash collateral required to be posted in connection with our financial instruments and insurance programs;
- purchases of common stock under our share repurchase authorization; and
- other corporate initiatives (including information systems and other strategic projects).

We are highly leveraged and have significant debt and lease obligations. As of June 30, 2019, we had two principal corporate-level debt obligations: our secured credit facility providing commitments of \$250.0 million and our separate unsecured facility providing for up to \$47.5 million of letters of credit.

As of June 30, 2019, we had \$3.6 billion of debt outstanding, excluding lease obligations, at a weighted-average interest rate of 4.89%. As of such date, 95.2% or \$3.4 billion, of our total debt obligations represented non-recourse property-level mortgage financings, \$88.6 million of letters of credit had been issued under our secured credit facility and separate unsecured letter of credit facility, and no balance was drawn on our secured credit facility. As of June 30, 2019, the current portion of long-term debt was \$267.2 million, including \$18.5 million of mortgage debt related to five communities classified as held for sale as of June 30, 2019. As of June 30, 2019, \$1.1 billion of our long-term debt is variable rate debt subject to interest rate cap agreements. The remaining \$102.9 million of our long-term variable rate debt is not subject to any interest rate cap agreements.

As of June 30, 2019, we had \$1.5 billion and \$863.6 million of operating and financing lease obligations, respectively. For the twelve months ending June 30, 2020 we will be required to make approximately \$307.3 million and \$88.7 million of cash payments in connection with our existing operating and financing leases, respectively. Additionally, we expect to exercise purchase options with respect to eight of our community leases (336 units) within the next twelve months. However, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising such purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. We expect to fund our acquisition of such communities with the proceeds from non-recourse mortgage financing on the acquired communities and cash on hand.

Total liquidity of \$478.3 million as of June 30, 2019 included \$256.0 million of unrestricted cash and cash equivalents (excluding restricted cash and lease security deposits of \$117.3 million in the aggregate), \$58.8 million of marketable securities, and \$163.5 million of availability on our secured credit facility. Total liquidity as of June 30, 2019 decreased \$114.2 million from total liquidity of \$592.5 million as of December 31, 2018. The decrease was primarily attributable to the negative \$63.3 million of Adjusted Free Cash Flow, repayment of debt of \$227.1 million during the period, \$18.4 million paid for share repurchases, an increase in restricted cash deposits on our insurance programs as we replaced letters of credit as collateral with restricted cash, and a lower

amount available on the secured credit facility. These decreases were partially offset by net cash proceeds of \$52.4 million from asset sales, proceeds from debt of \$158.2 million, and \$31.6 million notes receivable during the current period. In July of 2019 we increased the availability under our secured credit facility to \$180.8 million after giving effect to the addition of three communities to the borrowing base.

As of June 30, 2019, our current liabilities exceeded current assets by \$313.7 million. Our current liabilities include \$248.1 million of operating and financing lease obligations recognized on our condensed consolidated balance sheet, including \$182.7 million for the current portion of operating lease obligations recognized on our condensed consolidated balance sheet as a result of the application of ASC 842. Additionally, due to the nature of our business, it is not unusual to operate in the position of negative working capital because we collect revenues much more quickly, often in advance, than we are required to pay obligations, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations generally result in a very low level of current assets primarily stemming from our deployment of cash to pay down long-term liabilities, to fund capital expenditures, and to pursue transaction opportunities.

Capital Expenditures

Our capital expenditures are comprised of community-level, corporate, and development capital expenditures. Community-level capital expenditures include recurring expenditures (routine maintenance of communities over \$1,500 per occurrence, including for unit turnovers (subject to a \$500 floor)) and community renovations, apartment upgrades and other major building infrastructure projects. Corporate capital expenditures include those for information technology systems and equipment, the expansion of our support platform and healthcare services programs, and the remediation or replacement of assets as a result of casualty losses. Development capital expenditures include community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities.

Through our Program Max initiative, we intend to expand, renovate, redevelop, and reposition certain of our communities where economically advantageous. Certain of our communities may benefit from additions and expansions or from adding a new level of service for residents to meet the evolving needs of our customers. These Program Max projects include converting space from one level of care to another, reconfiguration of existing units, the addition of services that are not currently present, or physical plant modifications. We currently have 20 Program Max projects that have been approved, most of which have begun construction and are expected to generate 88 net new units.

Following Hurricane Irma in 2017, legislation was adopted in the State of Florida in March 2018 that requires skilled nursing homes and assisted living and memory care communities in Florida to obtain generators and fuel necessary to sustain operations and maintain comfortable temperatures in the event of a power outage. Our impacted Florida communities must be in compliance as of January 1, 2019, which has been extended in certain circumstances. To comply with this legislation, we made approximately \$12.1 million and \$3.0 million in capital expenditures in 2018 and the six months ended June 30, 2019, respectively. We expect to incur approximately \$2.0 million of additional capital expenditures in the remainder of 2019 to comply with this legislation.

The following table summarizes our capital expenditures for the six months ended June 30, 2019 for our consolidated business:

<i>(in millions)</i>	Six Months Ended June 30, 2019
Community-level capital expenditures, net ⁽¹⁾	\$ 103.2
Corporate ⁽²⁾	17.9
Non-development capital expenditures, net ⁽³⁾	121.1
Development capital expenditures, net	10.6
Total capital expenditures, net	\$ 131.7

(1) Reflects the amount invested, net of lessor reimbursements of \$1.0 million.

(2) Includes \$8.6 million of remediation costs at our communities resulting from hurricanes and for the acquisition of emergency power generators at our impacted Florida communities.

(3) Amount is included in Adjusted Free Cash Flow.

During 2018 we completed an intensive review of our community-level capital expenditure needs with a focus on ensuring that our communities are in appropriate physical condition to support our strategy and determining what additional investments are needed to protect the value of our community portfolio. As a result of that review, we have budgeted to make significant additional

near-term investments in our communities, a portion of which will be reimbursed by our lessors. In the aggregate, we expect our full-year 2019 non-development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$250 million. For 2019, this includes an increase of approximately \$75 million in our community-level capital expenditures relative to 2018, primarily attributable to major building infrastructure projects. We also expect our full-year 2019 development capital expenditures, net of anticipated lessor reimbursements, to be approximately \$30 million. We anticipate that our 2019 capital expenditures will be funded from cash on hand, cash flows from operations, and, if necessary, amounts drawn on our secured credit facility. With this additional investment in our communities, we expect our Adjusted Free Cash Flow to be negative for 2019. In addition, we expect that our 2020 community-level capital expenditures will continue to be elevated relative to 2018, but lower than 2019.

Execution on our strategy, including completing our capital expenditure plans and pursuing expansion of our healthcare services, may require additional capital. We expect to continue to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities. Any such sale of additional equity securities will dilute the percentage ownership of our existing stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock. If we are unable to raise additional funds or obtain them on terms acceptable to us, we may have to forgo, delay or abandon our plans.

We currently estimate that our existing cash flows from operations, together with cash on hand, amounts available under our secured credit facility and proceeds from anticipated dispositions of owned communities and financings and refinancings of various assets, will be sufficient to fund our liquidity needs for at least the next 12 months, assuming a relatively stable macroeconomic environment.

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

Credit Facilities

On December 5, 2018, we entered into a Fifth Amended and Restated Credit Agreement with Capital One, National Association, as administrative agent, lender and swingline lender and the other lenders from time to time parties thereto (the "Amended Agreement"). The Amended Agreement amended and restated in its entirety our Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 (the "Original Agreement"). The Amended Agreement provides commitments for a \$250 million revolving credit facility with a \$60 million sublimit for letters of credit and a \$50 million swingline feature. We have a one-time right under the Amended Agreement to increase commitments on the revolving credit facility by an additional \$100 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The Amended Agreement provides us a one-time right to reduce the amount of the revolving credit commitments, and we may terminate the revolving credit facility at any time, in each case without payment of a premium or penalty. The Amended Agreement extended the maturity date of the Original Agreement from January 3, 2020 to January 3, 2024 and decreased the interest rate payable on drawn amounts. Amounts drawn under the facility will continue to bear interest at 90-day LIBOR plus an applicable margin; however, the Amended Agreement reduced the applicable margin from a range of 2.50% to 3.50% to a range of 2.25% to 3.25%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.25% margin at utilization equal to or lower than 35%, a 2.75% margin at utilization greater than 35% but less than or equal to 50%, and a 3.25% margin at utilization greater than 50%. A quarterly commitment fee continues to be payable on the unused portion of the facility at 0.25% per annum when the outstanding amount of obligations (including revolving credit and swingline loans and letter of credit obligations) is greater than or equal to 50% of the revolving credit commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the revolving credit commitment amount.

The credit facility is secured by first priority mortgages on certain of our communities. In addition, the Amended Agreement permits us to pledge the equity interests in subsidiaries that own other communities and grant negative pledges in connection therewith (rather than mortgaging such communities), provided that not more than 10% of the borrowing base may result from communities subject to negative pledges. Availability under the revolving credit facility will vary from time to time based on borrowing base calculations related to the appraised value and performance of the communities securing the credit facility and our consolidated fixed charge coverage ratio. In July of 2019 we added three communities to the borrowing base.

The Amended Agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. Amounts drawn on the credit facility may be used for general corporate purposes.

As of June 30, 2019, no borrowings were outstanding on the revolving credit facility, \$41.2 million of letters of credit were outstanding, and the revolving credit facility had \$163.5 million of availability. We also had a separate unsecured credit facility providing for up to \$47.5 million of letters of credit as of June 30, 2019 under which \$47.5 million of letters of credit had been issued as of that date. After giving effect to the addition of the three communities to the borrowing base described above, availability under our secured credit facility is \$180.8 million as of August 6, 2019.

Long-Term Leases

As of June 30, 2019, we operated 335 communities under long-term leases (244 operating leases and 91 financing leases). The substantial majority of our lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. We typically guarantee the performance and lease payment obligations of our subsidiary lessees under the master leases. Due to the nature of such master leases, it is difficult to restructure the composition of our leased portfolios or economic terms of the leases without the consent of the applicable landlord. In addition, an event of default related to an individual property or limited number of properties within a master lease portfolio may result in a default on the entire master lease portfolio.

The leases relating to these communities are generally fixed rate leases with annual escalators that are either fixed or tied to changes in the consumer price index or the leased property revenue. We are responsible for all operating costs, including repairs, property taxes and insurance. As of June 30, 2019, the weighted-average remaining lease term of our operating and financing leases was 7.3 and 8.8 years, respectively. The lease terms generally provide for renewal or extension options from 5 to 20 years and in some instances, purchase options.

The community leases contain other customary terms, which may include assignment and change of control restrictions, maintenance and capital expenditure obligations, termination provisions, and financial covenants, such as those requiring us to maintain prescribed minimum net worth and stockholders' equity levels and lease coverage ratios, and not to exceed prescribed leverage ratios as further described below. In addition, our lease documents generally contain non-financial covenants, such as those requiring us to comply with Medicare or Medicaid provider requirements. Certain leases contain cure provisions, which generally allow us to post an additional lease security deposit if the required covenant is not met.

In addition, certain of our master leases and management agreements contain radius restrictions, which limit our ability to own, develop or acquire new communities within a specified distance from certain existing communities covered by such agreements. These radius restrictions could negatively affect our ability to expand or develop or acquire senior housing communities and operating companies.

For the three and six months ended June 30, 2019, our cash lease payments for our operating leases were \$76.7 million and \$154.4 million, respectively, and for our financing leases were \$28.3 million and \$56.7 million, respectively. For the twelve months ending June 30, 2020, we will be required to make approximately \$307.3 million and \$88.7 million of cash lease payments in connection with our existing operating and financing leases, respectively. Our capital expenditure plans for 2019 include required minimum spend of approximately \$12 million for capital expenditures under certain of our community leases, and thereafter we are required to spend an average of approximately \$20 million per year under the initial lease terms of such leases.

Debt and Lease Covenants

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

Our failure to comply with applicable covenants could constitute an event of default under the applicable debt or lease documents. Many of our debt and lease documents contain cross-default provisions so that a default under one of these instruments could cause a default under other debt and lease documents (including documents with other lenders and lessors).

Furthermore, our debt and leases are secured by our communities and, in certain cases, a guaranty by us and/or one or more of our subsidiaries. Therefore, if an event of default has occurred under any of our debt or lease documents, subject to cure provisions in certain instances, the respective lender or lessor would have the right to declare all the related outstanding amounts of indebtedness or cash lease obligations immediately due and payable, to foreclose on our mortgaged communities, to terminate our leasehold interests, to foreclose on other collateral securing the indebtedness and leases, to discontinue our operation of leased communities, and/or to pursue other remedies available to such lender or lessor. Further, an event of default could trigger cross-default provisions in our other debt and lease documents (including documents with other lenders or lessors). We cannot provide assurance that we would be able to pay the debt or lease obligations if they became due upon acceleration following an event of default.

As of June 30, 2019, we are in compliance with the financial covenants of our debt agreements and long-term leases.

Contractual Commitments

Significant ongoing commitments consist primarily of leases, debt, purchase commitments and certain other long-term liabilities. For a summary and complete presentation and description of our ongoing commitments and contractual obligations, see the "Contractual Commitments" section of 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, 2018 filed with the SEC on February 14, 2019. There have been no material changes outside the ordinary course of business in our contractual commitments during the six months ended June 30, 2019.

Off-Balance Sheet Arrangements

As of June 30, 2019, we do not have an interest in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

We own an interest in certain unconsolidated ventures. Except in limited circumstances, our risk of loss is limited to our investment in each venture. The equity method of accounting has been applied in the accompanying financial statements with respect to our investment in unconsolidated ventures.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q contains the financial measures Adjusted EBITDA and Adjusted Free Cash Flow, which are not calculated in accordance with GAAP. Presentations of these non-GAAP financial measures are intended to aid investors in better understanding the factors and trends affecting our performance and liquidity. However, investors should not consider these non-GAAP financial measures as a substitute for financial measures determined in accordance with GAAP, including net income (loss), income (loss) from operations, or net cash provided by (used in) operating activities. We caution investors that amounts presented in accordance with our definitions of these non-GAAP financial measures may not be comparable to similar measures disclosed by other companies because not all companies calculate non-GAAP measures in the same manner. We urge investors to review the reconciliations included below of these non-GAAP financial measures from the most comparable financial measures determined in accordance with GAAP.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP performance measure that we define as net income (loss) excluding: benefit/provision for income taxes, non-operating income/expense items, and depreciation and amortization; and further adjusted to exclude income/expense associated with non-cash, non-operational, transactional, cost reduction or organizational restructuring items that management does not consider as part of our underlying core operating performance and that management believes impact the comparability of performance between periods. For the periods presented herein, such other items include non-cash impairment charges, gain/loss on facility lease termination and modification, operating lease expense adjustment, amortization of deferred gain, change in future service obligation, non-cash stock-based compensation expense, and transaction and organizational restructuring costs. Transaction costs include those directly related to acquisition, disposition, financing, and leasing activity, our assessment of options and alternatives to enhance stockholder value, and stockholder relations advisory matters, and are primarily comprised of legal, finance, consulting, professional fees and other third party costs. Organizational restructuring costs include those related to our efforts to reduce general and administrative expense and our senior leadership changes, including severance

and retention costs. During the first quarter of 2019, we modified our definition of Adjusted EBITDA to exclude transaction and organizational restructuring costs, and amounts for all periods herein reflect application of the modified definition.

Our proportionate share of Adjusted EBITDA of unconsolidated ventures is calculated based on our equity ownership percentage and in a manner consistent with our definition of Adjusted EBITDA for our consolidated entities. Our investments in unconsolidated ventures are accounted for under the equity method of accounting, and therefore, our proportionate share of Adjusted EBITDA of unconsolidated ventures does not represent our equity in earnings or loss of unconsolidated ventures on our condensed consolidated statements of operations.

We believe that presentation of Adjusted EBITDA as a performance measure is useful to investors because (i) it is one of the metrics used by our management for budgeting and other planning purposes, to review our historic and prospective core operating performance, and to make day-to-day operating decisions; (ii) it provides an assessment of operational factors that management can impact in the short-term, namely revenues and the controllable cost structure of the organization, by eliminating items related to our financing and capital structure and other items that management does not consider as part of our underlying core operating performance and that management believes impact the comparability of performance between periods; and (iii) we believe that this measure is used by research analysts and investors to evaluate our operating results and to value companies in our industry. We believe that presentation of our proportionate share of Adjusted EBITDA of unconsolidated ventures is useful to investors for similar reasons with respect to the unconsolidated ventures.

Adjusted EBITDA has material limitations as a performance measure, including: (i) excluded interest and income tax are necessary to operate our business under our current financing and capital structure; (ii) excluded depreciation, amortization, and impairment charges may represent the wear and tear and/or reduction in value of our communities, goodwill, and other assets and may be indicative of future needs for capital expenditures; and (iii) we may incur income/expense similar to those for which adjustments are made, such as gain (loss) on sale of assets or facility lease termination and modification, debt modification and extinguishment costs, non-cash stock-based compensation expense, and transaction and other costs, and such income/expense may significantly affect our operating results.

The table below reconciles our Adjusted EBITDA from our net income (loss).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Net income (loss)	\$ (56,055)	\$ (165,509)	\$ (98,661)	\$ (622,743)
Provision (benefit) for income taxes	633	(15,546)	1,312	39
Equity in loss of unconsolidated ventures	991	1,324	1,517	5,567
Debt modification and extinguishment costs	2,672	9	2,739	44
(Gain) loss on sale of assets, net	(2,846)	(23,322)	(2,144)	(66,753)
Other non-operating income	(3,199)	(5,505)	(6,187)	(8,091)
Interest expense	62,828	73,901	126,193	146,441
Interest income	(2,813)	(2,941)	(5,897)	(5,924)
Income (loss) from operations	2,211	(137,589)	18,872	(551,420)
Depreciation and amortization	94,024	116,116	190,912	230,371
Goodwill and asset impairment	3,769	16,103	4,160	446,466
Loss on facility lease termination and modification, net	1,797	146,467	2,006	146,467
Operating lease expense adjustment	(4,429)	(4,066)	(8,812)	(12,169)
Amortization of deferred gain	—	(1,089)	—	(2,179)
Non-cash stock-based compensation expense	6,030	6,269	12,386	14,675
Transaction and organizational restructuring costs	634	5,006	1,095	22,162
Adjusted EBITDA ⁽¹⁾	\$ 104,036	\$ 147,217	\$ 220,619	\$ 294,373

- (1) Adoption of the new lease accounting standard effective January 1, 2019 will have a non-recurring impact on our full-year 2019 Adjusted EBITDA. Adjusted EBITDA for the three and six months ended June 30, 2019 includes a negative net impact of approximately \$6.5 million and \$13.0 million, respectively, from the application of the new lease accounting standard.

The table below reconciles our proportionate share of Adjusted EBITDA of unconsolidated ventures from net income (loss) of such unconsolidated ventures. For purposes of this presentation, amounts for each line item represent the aggregate amounts of such line items for all of our unconsolidated ventures.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Net income (loss)	\$ (1,983)	\$ (13,417)	\$ (3,033)	\$ (36,079)
Provision (benefit) for income taxes	23	209	47	443
Debt modification and extinguishment costs	—	135	21	118
(Gain) loss on sale of assets, net	(23)	3,882	(23)	2,837
Other non-operating income (loss)	—	(967)	—	(1,870)
Interest expense	7,348	23,182	14,728	50,009
Interest income	(865)	(829)	(1,677)	(1,586)
Income (loss) from operations	4,500	12,195	10,063	13,872
Depreciation and amortization	17,082	33,237	33,829	101,122
Asset impairment	7	118	302	273
Operating lease expense adjustment	—	4	—	8
Adjusted EBITDA of unconsolidated ventures	<u>\$ 21,589</u>	<u>\$ 45,554</u>	<u>\$ 44,194</u>	<u>\$ 115,275</u>
Brookdale's proportionate share of Adjusted EBITDA of unconsolidated ventures	<u>\$ 10,878</u>	<u>\$ 14,111</u>	<u>\$ 22,197</u>	<u>\$ 30,860</u>

Adjusted Free Cash Flow

Adjusted Free Cash Flow is a non-GAAP liquidity measure that we define as net cash provided by (used in) operating activities before: distributions from unconsolidated ventures from cumulative share of net earnings, changes in prepaid insurance premiums financed with notes payable, changes in operating lease liability for lease termination and modification, cash paid/received for gain/loss on facility lease termination and modification, and lessor capital expenditure reimbursements under operating leases; plus: property insurance proceeds and proceeds from refundable entrance fees, net of refunds; less: Non-Development Capital Expenditures and payment of financing lease obligations. Non-Development Capital Expenditures is comprised of corporate and community-level capital expenditures, including those related to maintenance, renovations, upgrades and other major building infrastructure projects for our communities and is presented net of lessor reimbursements. Non-Development Capital Expenditures does not include capital expenditures for community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities. During the first quarter of 2019, we modified our definition of Adjusted Free Cash Flow to no longer adjust net cash provided by (used in) operating activities for changes in working capital items other than prepaid insurance premiums financed with notes payable and lease liability for lease termination and modification, and amounts for all periods herein reflect application of the modified definition.

Our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is calculated based on our equity ownership percentage and in a manner consistent with our definition of Adjusted Free Cash Flow for our consolidated entities. Our investments in our unconsolidated ventures are accounted for under the equity method of accounting and, therefore, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures does not represent cash available to our consolidated business except to the extent it is distributed to us.

We believe that presentation of Adjusted Free Cash flow as a liquidity measure is useful to investors because (i) it is one of the metrics used by our management for budgeting and other planning purposes, to review our historic and prospective sources of operating liquidity, and to review our ability to service our outstanding indebtedness, pay dividends to stockholders, engage in share repurchases, and make capital expenditures, including development capital expenditures; (ii) it is used as a metric in our performance-based compensation programs; and (iii) it provides an indicator to management to determine if adjustments to current spending decisions are needed. We believe that presentation of our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures is useful to investors for similar reasons with respect to the unconsolidated ventures and, to the extent such cash is not distributed to us, it generally represents cash used or to be used by the ventures for the repayment of debt, investing in expansions or acquisitions, reserve requirements, or other corporate uses by such ventures, and such uses reduce our potential need to make capital contributions to the ventures of our proportionate share of cash needed for such items.

Adjusted Free Cash Flow has material limitations as a liquidity measure, including: (i) it does not represent cash available for dividends, share repurchases, or discretionary expenditures since certain non-discretionary expenditures, including mandatory debt principal payments, are not reflected in this measure; (ii) the cash portion of non-recurring charges related to gain (loss) on facility lease termination and modification generally represent charges (gains) that may significantly affect our liquidity; and (iii) the impact of timing of cash expenditures, including the timing of Non-Development Capital Expenditures, limits the usefulness of the measure for short-term comparisons. In addition, our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures has material limitations as a liquidity measure because it does not represent cash available directly for use by our consolidated business except to the extent actually distributed to us, and we do not have control, or we share control in determining, the timing and amount of distributions from our unconsolidated ventures and, therefore, we may never receive such cash.

The table below reconciles our Adjusted Free Cash Flow from our net cash provided by (used in) operating activities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Net cash provided by (used in) operating activities	\$ 64,128	\$ 60,620	\$ 59,119	\$ 98,584
Net cash provided by (used in) investing activities	19,774	(79,643)	(80,299)	11,512
Net cash provided by (used in) financing activities	(87,443)	(185,876)	(104,079)	(201,980)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ (3,541)	\$ (204,899)	\$ (125,259)	\$ (91,884)
Net cash provided by (used in) operating activities	\$ 64,128	\$ 60,620	\$ 59,119	\$ 98,584
Distributions from unconsolidated ventures from cumulative share of net earnings	(781)	(739)	(1,530)	(1,147)
Changes in prepaid insurance premiums financed with notes payable	(6,752)	(6,208)	12,090	12,425
Changes in operating lease liability related to lease termination	—	33,596	—	33,596
Cash paid for loss on facility operating lease termination and modification, net	—	13,044	—	13,044
Changes in assets and liabilities for lessor capital expenditure reimbursements under operating leases	(1,000)	—	(1,000)	—
Non-development capital expenditures, net	(66,464)	(47,681)	(121,066)	(89,417)
Property insurance proceeds	—	—	—	156
Payment of financing lease obligations	(5,500)	(18,787)	(10,953)	(39,901)
Proceeds from refundable entrance fees, net of refunds	—	(171)	—	52
Adjusted Free Cash Flow	\$ (16,369)	\$ 33,674	\$ (63,340)	\$ 27,392

- (1) The calculation of Adjusted Free Cash Flow includes transaction costs of \$0.6 million and \$1.1 million for the three and six months ended June 30, 2019, respectively, and transaction and organizational restructuring costs of \$5.0 million and \$22.2 million for the three and six months ended June 30, 2018, respectively.

The table below reconciles our proportionate share of Adjusted Free Cash Flow of unconsolidated ventures from net cash provided by (used in) operating activities of such unconsolidated ventures. For purposes of this presentation, amounts for each line item represent the aggregate amounts of such line items for all of our unconsolidated ventures.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands)</i>				
Net cash provided by (used in) operating activities	\$ 31,259	\$ 47,510	\$ 55,381	\$ 97,772
Net cash provided by (used in) investing activities	(9,419)	(15,746)	(17,430)	(30,388)
Net cash provided by (used in) financing activities	(16,449)	(29,380)	(25,237)	(52,659)
Net increase in cash, cash equivalents and restricted cash	\$ 5,391	\$ 2,384	\$ 12,714	\$ 14,725
Net cash provided by (used in) operating activities	\$ 31,259	\$ 47,510	\$ 55,381	\$ 97,772
Non-development capital expenditures, net	(9,681)	(18,867)	(17,681)	(38,928)
Property insurance proceeds	—	634	—	1,535
Proceeds from refundable entrance fees, net of refunds	(7,790)	(3,323)	(13,633)	(10,035)
Adjusted Free Cash Flow of unconsolidated ventures	\$ 13,788	\$ 25,954	\$ 24,067	\$ 50,344
Brookdale's proportionate share of Adjusted Free Cash Flow of unconsolidated ventures	\$ 6,958	\$ 9,019	\$ 12,342	\$ 15,386

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks from changes in interest rates charged on our credit facilities and other variable-rate indebtedness. The impact on earnings and the value of our long-term debt are subject to change as a result of movements in market rates and prices. As of June 30, 2019, we had approximately \$2.3 billion of long-term fixed rate debt and \$1.2 billion of long-term variable rate debt. For the six months ended June 30, 2019, our total fixed-rate debt and variable-rate debt outstanding had a weighted-average interest rate of 4.89%.

In the normal course of business, we enter into certain interest rate cap agreements with major financial institutions to effectively manage our risk above certain interest rates on variable rate debt. As of June 30, 2019, \$1.1 billion, or 32.0%, of our long-term debt is variable rate debt subject to interest rate cap agreements and \$102.9 million, or 2.9%, of our long-term debt is variable rate debt not subject to any interest rate cap agreements. Our outstanding variable rate debt is indexed to LIBOR, and accordingly our annual interest expense related to variable rate debt is directly affected by movements in LIBOR. After consideration of hedging instruments currently in place, increases in LIBOR of 100, 200, and 500 basis points would have resulted in additional annual interest expense of \$12.7 million, \$24.2 million, and \$31.5 million, respectively. Certain of the Company's variable debt instruments include springing provisions that obligate the Company to acquire additional interest rate caps in the event that LIBOR increases above certain levels, and the implementation of those provisions would result in additional mitigation of interest costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that, as of June 30, 2019, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in Note 11 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by this reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable.
- (b) Not applicable.
- (c) The following table contains information regarding purchases of our common stock made during the quarter ended June 30, 2019 by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (\$ in thousands) (2)
4/1/2019 - 4/30/2019	502,019	\$ 6.29	502,019	\$ 72,704
5/1/2019 - 5/31/2019	177,709	6.25	162,156	71,702
6/1/2019 - 6/30/2019	614,387	6.51	614,387	67,703
Total	1,294,115	\$ 6.39	1,278,562	

- (1) Includes 15,553 shares withheld to satisfy tax liabilities due upon the vesting of restricted stock during May 2019 and 1,278,562 shares purchased in open market transactions during April, May, and June 2019 pursuant to the publicly announced repurchase program summarized in footnote (2) below. The average price paid per share for such share withholding is based on the closing price per share on the vesting date of the restricted stock or, if such date is not a trading day, the trading day immediately prior to such vesting date.
- (2) On November 1, 2016, the Company announced that its Board of Directors had approved a share repurchase program that authorizes the Company to purchase up to \$100.0 million in the aggregate of its common stock. The share repurchase program is intended to be implemented through purchases made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements, and capital availability. The repurchase program does not obligate the Company to acquire any particular amount of common stock and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the program will be held as treasury shares. As of June 30, 2019, approximately \$67.7 million remained available under the repurchase program.

Item 5. Other Information

On May 28, 2019, the Company's Board of Directors, upon recommendation of the Nominating and Corporate Governance Committee, amended and restated the Company's Bylaws (the "Amended Bylaws") to implement proxy access. The Amended Bylaws include a new provision that, among other things, permits a stockholder, or a group of up to 20 stockholders, owning at least three percent of the Company's outstanding common stock continuously for at least three years, to nominate and include in the Company's annual meeting proxy materials director nominees constituting up to the greater of two director nominees or 20

percent of the number of directors in office (rounded down to the nearest whole number), provided that the stockholders and nominees satisfy the requirements specified in the Amended Bylaws. The Amended Bylaws became effective immediately upon their adoption, and proxy access will first be available to stockholders in connection with the Company's 2020 annual meeting of stockholders.

Item 6. Exhibits

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed on February 14, 2019 (File No. 001-32641)).</u>
3.2	<u>Amended and Restated Bylaws of the Company dated May 28, 2019 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 29, 2019 (File No. 001-32641)).</u>
4.1	<u>Form of Certificate for common stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 3) filed on November 7, 2005 (File No. 333-127372)).</u>
10.1	<u>Amendment No. 2 effective April 22, 2019 to Master Lease and Security Agreement by and between certain affiliates of the Company named therein as tenant and certain affiliates of Ventas, Inc. named therein as landlord.†</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL (included in Exhibit 101).

† Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROOKDALE SENIOR LIVING INC.

(Registrant)

By: /s/ Steven E. Swain

Name: Steven E. Swain

Title: Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

Date: August 6, 2019

Information identified by "[*]" has been excluded from this exhibit pursuant to Item 601(b)(10) of Regulation S-K because it is both not material and would likely cause competitive harm to the registrant if publicly disclosed.

**AMENDMENT NO. 2 TO MASTER LEASE AND SECURITY AGREEMENT
(2019/2020 Capital Expenditure Projects)**

THIS AMENDMENT NO. 2 TO MASTER LEASE AND SECURITY AGREEMENT (hereinafter, this “**Amendment**”) is to be effective as of April 22, 2019 (the “**Amendment Date**”), by and between each of the signatories hereto identified as Landlord (individually and collectively, “**Landlord**”), and each of the signatories hereto identified as Tenant (individually and collectively, “**Tenant**”).

RECITALS

A. Landlord and Tenant are parties to that certain Master Lease and Security Agreement dated as of April 26, 2018, as amended by that certain Amendment No. 1 to Master Lease and Security Agreement effective as of September 1, 2018 (as the same has been amended and as it may be hereafter amended, amended and restated, supplemented, replaced or extended from time to time, the “**Master Lease**”); and

B. Tenant has requested that Landlord provide up to an aggregate maximum of \$36,100,000 of Landlord UE Funds pursuant to the provisions of Section 6.3.5 of the Master Lease (the “**Requested Landlord UE Funds**”) for those certain Upgrade Expenditures described on Exhibit A attached hereto (the “**Subject Projects**”); and

C. Landlord is willing to provide the Requested Landlord UE Funds pursuant to the terms of this Amendment; and

D. Landlord and Tenant wish to amend the Master Lease as set forth herein.

NOW, THEREFORE, in consideration of the foregoing Recitals, which by this reference are incorporated herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. Capitalized Terms. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Master Lease.

2. Amendments to Lease.

2.1. Requests for Disbursement. Tenant shall submit each request for disbursement of the Requested Landlord UE Funds by delivery to Landlord of written notice of

such request on the form attached hereto as Exhibit B (the “**Request Form**”). Tenant may request disbursement of Requested Landlord UE Funds no more than one time per calendar month and in amounts of not less than \$50,000. Tenant may not request disbursement of the Requested Landlord UE Funds later than December 14, 2019; provided, however, that (i) up to \$5,000,000 of the Requested Landlord UE Funds may be requested after December 14, 2019 but no later than March 14, 2020, and (ii) up to \$7,400,000 of the Requested Landlord UE Funds may be requested after December 14, 2019, but no later than June 14, 2020. Tenant shall notify Landlord as soon as reasonably practicable of the amount (if any) of Requested Landlord UE Funds that Tenant expects to request after December 14, 2019 and the Subject Projects to which such Requested Landlord UE Funds relate.

2.2. Additional Information and Requirements. Notwithstanding anything to the contrary contained in the Master Lease, Landlord shall promptly fund to Tenant the amounts indicated in the Request Form, provided that (i) at the time of delivery of the Request Form, no Master Lease Event of Default or Facility Default relating to the Facility that is the subject of the request has occurred and is continuing and (ii) Tenant delivers to Landlord the invoices, proof of payment, and, for any work in excess of \$10,000, lien waivers, in each case relating to the applicable Upgrade Expenditures described on Exhibit A. Tenant shall promptly provide such additional information as Landlord may reasonably request in connection with any such request for disbursement, but provision of such information shall not be a condition to disbursement.

2.3. Changes to Proposed Projects. This Section 2.3 shall apply solely for the purposes of determining whether Landlord will make Requested Landlord UE Funds available for the Subject Projects and shall not give rise to, or result in, any default, Master Lease Event of Default, or Facility Default. Tenant shall promptly notify Landlord of any proposed change in the scope or nature of any Subject Project from the description of such Subject Project set forth on Exhibit A, as applicable, and Tenant acknowledges and agrees that no Material Change shall be permitted without Landlord’s consent (regardless of whether Tenant is required to obtain Landlord’s consent to such change pursuant to the terms of the Master Lease), and Material Changes will only be considered by Landlord if Tenant has demonstrated to Landlord’s reasonable satisfaction actual Cost Savings with respect to other Subject Projects that, in the aggregate, would offset any increased cost associated with such Material Change. Any right of Landlord to withhold consent to a Material Change pursuant to the terms of the Master Lease for reasons other than an increase in the cost of the Subject Project shall not be deemed to have been modified by the terms of this Section 3. “**Material Change**” shall mean a change in the scope or nature of a proposed project that is expected to result in (i) cost increases that exceed the amount shown on Exhibit A, as applicable, for a Subject Project by \$250,000 or more or (ii) any change in the nature of the Subject Project such that the description of the Subject Project materially deviates from the description provided in Exhibit A. “**Cost Savings**” shall mean a reduction in the actual cost of a Subject Project below the amount shown on Exhibit A, for such Subject Project by way of efficiencies or reductions in scope of such Subject Project.

3. Failure to Spend the Landlord Threshold. If, for calendar year 2019 or 2020, the total Facility Actual Upgrade Expenditures Amount for all Facilities, in the aggregate, booked for such calendar year is less than the aggregate Landlord Funding Threshold for all Facilities for such calendar year, each as equitably adjusted pro rata to account for any change in the number of Facilities and/or Units during such calendar year (the positive value of any such difference, the “**Landlord Funding Threshold Shortfall**”), then:

3.1. Within 10 business days following Landlord’s written demand therefor, Tenant shall pay to Landlord an amount equal to the lesser of (i) the Landlord Funding Threshold Shortfall and (ii) the total amount of Requested Landlord UE Funds booked for such calendar year and funded by Landlord (such lesser amount, the “**Landlord UE Funds Refund Amount**”); and

3.2. Upon receipt by Landlord of the Landlord UE Funds Refund Amount pursuant to Section 3.1, and without further action of the parties:

3.2.1. Annual Minimum Rent shall decrease by an amount equal to the Landlord Funds Rent Increase attributable to such Landlord UE Funds Refund Amount, as such Landlord Funds Rent Increase may have increased pursuant to **Section 6.5.8.3** of the Master Lease (the “**Landlord UE Funds Refund Rent Decrease**”);

3.2.2. **Schedule 1** to the Master Lease shall be deemed revised as follows: (a) the amount of the Landlord UE Funds Refund Rent Decrease shall be allocated to each of the Facilities with respect to which Landlord funded Requested Landlord UE Funds during the applicable calendar year in proportion to the amount funded and (b) following that allocation, the Proportionate Share percentage for each Facility shall be revised to equal the percentage obtained by dividing the annual Minimum Rent allocated to that Facility (as adjusted under this **Section 3.2.2**, if applicable) by the aggregate annual Minimum Rent for the Premises (as adjusted under this **Section 3.2.2**).

3.2.3. For purposes of determining the total Facility Actual Upgrade Expenditures Amount pursuant to Section 3 only, references to “Upgrade Expenditures Test Period” in the definition of “Facility Actual Upgrade Expenditures Amount” shall be deemed to refer to the applicable calendar year.

3.3. Status Reports Regarding Subject Projects and Landlord Funding Threshold. Included with each draw request and in any event no later than 30 days after the end of each calendar quarter of 2019, Tenant shall deliver, on a quarterly and year-to-date basis, the following:

3.3.1. A report of the Subject Projects detailing actual amounts invoiced and paid versus the budgeted amounts on Exhibit A and the quarterly expectations for future amounts to be incurred and the current status of the Subject Projects. Such reporting shall include a total of estimated Cost Savings for each Subject Project (if any), and the total and estimated amount of Requested Landlord UE Funds expended to date and through completion of such Subject Project.

3.3.2. A Facility-by-Facility and project-by-project report of actual amounts invoiced and paid for Upgrade Expenditures that are not related to Subject Projects.

4. Miscellaneous.

4.1. Consistency. For the avoidance of doubt, the terms of this Amendment relate only to the Subject Projects and calendar year 2019 (subject to the right of Tenant to request a limited amount of the Requested Landlord UE Funds in 2020 pursuant to the terms of this Amendment) and shall not serve to establish a course of dealing or amend or modify the terms and conditions of the Master Lease for future periods.

4.2. Integrated Agreement; Modifications; Waivers. This Amendment, and the Master Lease as amended hereby, constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all prior representations, understandings and agreements, whether written or oral, with respect to such subject matter. Each of the parties hereto acknowledges that it has not relied upon, in entering into this Amendment, any representation, warranty, promise or condition not specifically set forth in this Amendment.

4.3. Sealed Writing. The parties acknowledge and agree that the Master Lease, as amended by this Amendment, is intended to be a sealed instrument and to comply with Virginia Code Sections 55-2 and 11-3, and shall be interpreted as if the words “this deed of Lease” were included in the body of the Master Lease.

4.4. Effect of Amendment. Except as expressly modified in this Amendment, the Master Lease shall remain in full force and effect and is expressly ratified and confirmed by the parties hereto, and Tenant shall lease the Facilities (as modified by this Amendment) from Landlord on the terms set forth in the Master Lease (as modified by this Amendment). In the event of any inconsistencies between the terms of this Amendment and any terms of the Master Lease with respect to the subject matter hereof, the terms of this Amendment shall control.

4.5. Counterparts. This Amendment may be executed and delivered (including by facsimile or Portable Document Format (pdf) transmission) in counterparts, all of which executed counterparts shall together constitute a single document. Signature pages may be detached from the counterparts and attached to a single copy of this document to physically form one document. Any such facsimile documents and signatures shall have the same force and effect as manually-signed originals and shall be binding on the parties hereto.

IN WITNESS WHEREOF, this Amendment has been executed by Landlord and Tenant as of the date first written above.

TENANT:

BLC-THE HALLMARK, LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-KENWOOD OF LAKE VIEW, LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BROOKDALE SENIOR LIVING COMMUNITIES, INC. a Delaware corporation (f/k/a Alterra Healthcare Corporation and Alternative Living Services, Inc.)

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

ACKNOWLEDGEMENT

STATE OF Tennessee)
) :ss.:
COUNTY OF Williamson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared Brookdale Senior Living Communities, Inc., a Delaware corporation ("Company"), by Todd H. Kaestner, its EVP, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Brentwood, Tennessee, this 18 day of April, 2019.

(SEAL)

/s/ Carla Lockridge

Notary Public

Print Name: Carla Lockridge

My commission expires: 19 April 2020

Acting in the County of: Williamson

BLC-GABLES AT FARMINGTON, LLC, a
Delaware limited liability company

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

BLC-DEVONSHIRE OF HOFFMAN
ESTATES, LLC, a Delaware limited liability
company

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

BLC-THE BERKSHIRE OF CASTLETON,
L.P., a Delaware limited partnership

By: BLC-The Berkshire of Castleton, LLC, a
Delaware limited liability company, its
General Partner

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

BLC-SPRINGS AT EAST MESA, LLC, a
Delaware limited liability company

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

BLC-RIVER BAY CLUB, LLC, a Delaware
limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-WOODSIDE TERRACE, L.P., a Delaware
limited partnership

By: BLC-Woodside Terrace, LLC, a Delaware
limited liability company, its general
partner

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-ATRIUM AT SAN JOSE, L.P., a Delaware
limited partnership

By: BLC-Atrium at San Jose, LLC, a Delaware
limited liability company, its general
partner

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-BROOKDALE PLACE OF SAN
MARCOS, L.P., a Delaware limited partnership

By: BLC-Brookdale Place of San Marcos, LLC, a
Delaware limited liability company, its
general partner

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-PONCE DE LEON, LLC, a Delaware
limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-PARK PLACE, LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-HAWTHORNE LAKES, LLC, a Delaware
limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-THE WILLOWS, LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-BRENDENWOOD, LLC, a Delaware
limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BLC-CHATFIELD, LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BROOKDALE LIVING COMMUNITIES OF
FLORIDA, INC. a Delaware corporation

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BROOKDALE LIVING COMMUNITIES OF
ILLINOIS-DNC, LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

BROOKDALE LIVING COMMUNITIES OF
ILLINOIS-GV, LLC, a Delaware limited liability
company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SW ASSISTED LIVING, LLC, a Delaware
limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE AT FAIRWOOD MANOR,
LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE AT HERITAGE PLACE,
LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 5 LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 4 LLC, a Delaware limited
liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 14 LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 15 LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 16 LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE 17 LLC, a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

SUMMERVILLE AT RIDGEWOOD
GARDENS LLC, a Delaware limited liability
company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

ALS PROPERTIES TENANT I, LLC,
a Delaware limited liability company

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

ACKNOWLEDGEMENT

STATE OF Tennessee)
) :ss.:
COUNTY OF Williamson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared ALS Properties Tenant I, LLC, a Delaware limited liability company ("Company"), by H. Todd Kaestner, its EVP, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Brentwood, Tennessee, this 18 day of April, 2018.

(SEAL) /s/ Carla Lockridge
Notary Public

Print Name: Carla Lockridge
My commission expires: 19 April 2020
Acting in the County of: Williamson

ALS PROPERTIES TENANT II, LLC, a
Delaware limited liability company

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

ALS LEASING, INC., a Delaware corporation

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

ACKNOWLEDGEMENT

STATE OF Tennessee)

) :ss.:

COUNTY OF Williamson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared ALS Leasing, Inc., a Delaware corporation ("Company"), by H. Todd Kaestner, its EVP, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Brentwood, Tennessee, this 18th day of April, 2018.

(SEAL) /s/ Carla Lockridge

Notary Public

Print Name: Carla Lockridge

My commission expires: 19 April 2020

Acting in the County of: Williamson

ASSISTED LIVING PROPERTIES, INC., a
Kansas corporation

By: /s/ H. Todd Kaestner
Name: H. Todd Kaestner
Title: EVP

LANDLORD:

VENTAS REALTY, LIMITED
PARTNERSHIP, a Delaware limited partnership

By: Ventas, Inc., a Delaware corporation, its
general partner

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Sr. Vice President & Chief Tax Officer

PSLT-ALS PROPERTIES I, LLC, a Delaware
limited liability company

By: PSLT-ALS Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

ACKNOWLEDGEMENT

STATE OF Kentucky)

) :ss.:

COUNTY OF Jefferson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared Ventas Provident, LLC, a Delaware limited liability company ("Company"), the sole

member of PSLT GP, LLC, the general partner of PSLT OP, L.P., the sole member of PSLT-ALS Properties Holdings, LLC, the sole member of PSLT-ALS Properties I, LLC, by Brian K. Wood, its Vice President & Treasurer, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Louisville, Kentucky, this 19 day of April, 2019.

(SEAL) /s/ Adrienne Riley
Notary Public

Print Name: Adrienne Riley
My commission expires: 01-17-2021
Acting in the County of: Jefferson

PSLT-ALS PROPERTIES II, LLC, a Delaware limited liability company

By: PSLT-ALS Properties Holdings, LLC, its sole member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

PSLT-ALS PROPERTIES IV, LLC, a Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

PSLT-ALS PROPERTIES III, LLC, a Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

ACKNOWLEDGEMENT

STATE OF Kentucky)
):ss.:
COUNTY OF Jefferson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared PSLT-ALS PROPERTIES III, LLC, a Delaware limited liability company ("Company"), which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Louisville, Kentucky, this 19 day of April, 2019.

(SEAL) /s/ Adrienne Riley
Notary Public

Print Name: Adrienne Riley
My commission expires: 01-17-2021
Acting in the County of: Jefferson

BROOKDALE LIVING COMMUNITIES OF
ILLINOIS-2960, LLC, a Delaware limited
liability company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
ILLINOIS-HV, LLC, a Delaware limited liability
company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

RIVER OAKS PARTNERS, an Illinois general partnership

By: Brookdale Holdings, LLC, its managing partner

By: PSLT-BLC Properties Holdings, LLC, its sole member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF MINNESOTA, LLC, a Delaware limited liability company

By: PSLT-BLC Properties Holdings, LLC, its sole member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
CONNECTICUT, LLC, a Delaware limited
liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

PSLT-BLC PROPERTIES HOLDINGS, LLC, a
Delaware limited liability company

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

THE PONDS OF PEMBROKE LIMITED
PARTNERSHIP, an Illinois general partnership

By: Brookdale Holdings, LLC, its general partner

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
ARIZONA-EM, LLC, a Delaware limited liability
company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
MASSACHUSETTS-RB, LLC, a Delaware
limited liability company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
CALIFORNIA-RC, LLC, a Delaware limited
liability company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF CALIFORNIA, LLC, a Delaware limited liability company

By: PSLT-BLC Properties Holdings, LLC, its sole member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BLC OF CALIFORNIA-SAN MARCOS, L.P., a Delaware limited partnership

By: Brookdale Living Communities of California-San Marcos, LLC, its general partner

By: PSLT-BLC Properties Holdings, LLC, its sole member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
WASHINGTON-PP, LLC, a Delaware limited
liability company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
ILLINOIS-II, LLC, a Delaware limited liability
company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

By: Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
NEW JERSEY, LLC, a Delaware limited liability
company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

BROOKDALE LIVING COMMUNITIES OF
FLORIDA-CL, LLC, a Delaware limited liability
company

By: PSLT-BLC Properties Holdings, LLC, its sole
member

By: PSLT OP, L.P., its sole member

By: PSLT GP, LLC, its general partner

Ventas Provident, LLC, its sole member

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

NATIONWIDE HEALTH PROPERTIES, LLC,
a Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

ACKNOWLEDGEMENT

STATE OF Kentucky)

) :ss.:

COUNTY OF Jefferson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared Nationwide Health Properties, LLC, a Delaware limited liability company corporation ("Company"), by Brian K. Wood, its Vice President & Treasurer, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Louisville, Kentucky, this 19 day of April, 2019.

(SEAL) /s/ Adrienne Riley

Notary Public

Print Name: Adrienne Riley

My commission expires: 01-17-2021

Acting in the County of: Jefferson

2010 UNION LIMITED PARTNERSHIP, a
Washington limited partnership

By: Nationwide Health Properties, LLC, its
general partner

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

NH TEXAS PROPERTIES LIMITED
PARTNERSHIP, a Texas limited partnership

By: MLD Texas Corporation, its general partner

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

MLD PROPERTIES, INC., a Delaware
corporation

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

JER/NHP SENIOR LIVING ACQUISITION,
LLC, a Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

ACKNOWLEDGEMENT

STATE OF Kentucky)

) :ss.:

COUNTY OF Jefferson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared JER/NHP Senior Living Acquisition, LLC, a Delaware limited liability company ("Company"), by Brian K. Wood, its Vice President & Treasurer, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Louisville, Kentucky, this 19 day of April, 2019.

(SEAL) /s/ Adrienne Riley

Notary Public

Print Name: Adrienne Riley

My commission expires: 01-17-2021

Acting in the County of: Jefferson

JER/NHP SENIOR LIVING KANSAS, INC., a Kansas corporation

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

JER/NHP SENIOR LIVING TEXAS, L.P., a Texas limited partnership

By: JER/NHP Management Texas, LLC, its general partner

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

MLD PROPERTIES LIMITED PARTNERSHIP, a Delaware limited partnership

By: MLD Properties II, Inc., its general partner

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

NHP MCCLAIN, LLC, a Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

ACKNOWLEDGEMENT

STATE OF Kentucky)

) :ss.:

COUNTY OF Jefferson)

Before me, the undersigned, a Notary Public in and for said County and State, personally appeared NHP MCCLAIN, LLC, a Delaware limited liability company ("Company"), by Brian K. Wood, its Vice President & Treasurer, which Company executed the foregoing instrument, who acknowledged that she/he did sign the foregoing instrument for and on behalf of the Company, being thereunto duly authorized and that the same is her/his free act and deed individually and in said capacity and the free and deed of the Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at Louisville, Kentucky, this 19 day of April, 2019.

(SEAL) /s/ Adrienne Riley

Notary Public

Print Name: Adrienne Riley

My commission expires: 01-17-2021

Acting in the County of: Jefferson

VENTAS FAIRWOOD, LLC, a Delaware
limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

VENTAS FRAMINGHAM, LLC, a Delaware
limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

VENTAS WHITEHALL ESTATES, LLC, a
Delaware limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

VTR-EMRTS HOLDINGS, LLC, a Delaware
limited liability company

By: /s/ Brian K. Wood

Name: Brian K. Wood

Title: Vice President & Treasurer

CONSENT AND REAFFIRMATION OF GUARANTOR

THIS CONSENT AND REAFFIRMATION OF GUARANTOR (this “**Reaffirmation**”) is entered into concurrently with and is attached to and hereby made a part of Amendment No. 2 to Lease dated as of April 22, 2019 (the “**Lease Amendment**”) between Landlord and Tenant (both, as defined therein).

BROOKDALE SENIOR LIVING INC., a Delaware corporation (“**Guarantor**”) executed and delivered that certain Guaranty dated as of April 26, 2018 (the “**Guaranty**”), pursuant to which Guarantor guaranteed for the benefit of Landlord, the obligations of Tenant under the Lease.

FOR VALUABLE CONSIDERATION, receipt of which is hereby acknowledged, Guarantor hereby acknowledges, reaffirms and agrees:

1. Capitalized terms used but not defined in this Reaffirmation shall have the same meanings for purposes of this Reaffirmation as provided in or for purposes of the Lease Amendment.

2. Guarantor hereby (i) acknowledges and consents to the Lease Amendment, (ii) reaffirms its obligations under the Guaranty with respect to the Lease as amended by the Lease Amendment, and (iii) confirms that the Guaranty remains in full force and effect.

3. Although Guarantor has been informed of the terms of the Lease Amendment, Guarantor understands and agrees that Landlord has no duty to so notify it or to seek this or any future acknowledgment, consent or reaffirmation, and nothing contained herein shall create or imply any such duty as to any transactions, past or future.

Guarantor has executed this Consent and Reaffirmation of Guarantor effective as of the Amendment Date.

GUARANTOR:

BROOKDALE SENIOR LIVING INC.,
a Delaware corporation

By: /s/ H. Todd Kaestner

Name: H. Todd Kaestner

Title: EVP

Exhibit A

Requested Landlord Funded Upgrade Expenditures (Subject Properties)

[***]

EXHIBIT B

Request Form

Form of Request for Disbursement of Landlord UE Funds

c/o Ventas, Inc.
353 N. Clark Street, Suite 3300
Chicago, IL 60654
Attn: Asset Management

c/o Ventas, Inc.
353 N. Clark Street, Suite 3300
Chicago, IL 60654
Attn: Legal Department

[DATE]

Re: 2019 and 2020 Landlord UE Funds Disbursement Request #__

To Whom It May Concern:

Certain affiliates of Brookdale Senior Living, Inc., as tenant (collectively, “**Tenant**”), and certain affiliates of Ventas, Inc., as landlord (collectively “**Landlord**”), are parties to that certain Master Lease and Security Agreement dated April 26, 2018 between Landlord and Tenant (as amended, amended and restated, replaced, extended or joined in from time to time, the “**Combination Lease**”). Capitalized terms used and not otherwise defined in this letter shall have the meanings ascribed to them in the Combination Lease.

Tenant requested that Landlord provide certain Landlord UE Funds, and Landlord has agreed to provide such Landlord UE Funds, pursuant and subject to the terms of that certain Master Lease Amendment No. 2 dated as of April __, 2019. Brookdale Senior Living, Inc. (“**Brookdale**”), on behalf of Tenant, hereby requests disbursement of the Landlord UE Funds identified in the attachments to this letter for the capital expenditure categorized work (the “**CapEx Project(s)**”) identified in the attachments to this letter pursuant to the wiring instructions identified in the attachments to this letter. Accordingly:

1. Approvals and Consents. Brookdale hereby certifies that all material building permits, zoning variances and other approvals or consents of appropriate Governmental Authorities necessary to commence and complete construction of the completed portion(s) of the CapEx Projects have been received.
-

2. No Master Lease Event of Default or Facility Default. Brookdale hereby certifies that, as of the date hereof, no Master Lease Event of Default or Facility Default with respect to any Facility that is the subject of this request has occurred and is continuing.
3. Receipts/Invoices/Lien Waivers. The invoices and proof of payment with respect to the CapEx Projects and the requested Landlord UE Funds (and lien waivers for any such work in excess of \$10,000) are attached to this letter.
4. No Liens. Brookdale hereby certifies that, to Brookdale's knowledge, no materialman's lien or mechanic's lien has been filed against the Facility(ies) to which the CapEx Projects relate.
5. Effect on Authorizations. Brookdale hereby certifies that no change, modification, or addition to the Authorizations of the affected Facilities is required on account of the CapEx Projects.

Sincerely,

Brookdale Senior Living, Inc.

By:

Name:

Its:

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lucinda M. Baier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Brookdale Senior Living Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Lucinda M. Baier

Lucinda M. Baier

President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven E. Swain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Brookdale Senior Living Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Steven E. Swain

Steven E. Swain

Executive Vice President and Chief Financial Officer

EXHIBIT 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL
OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Brookdale Senior Living Inc. (the "Company") for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Lucinda M. Baier, as President and Chief Executive Officer of the Company, and Steven E. Swain, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lucinda M. Baier

Name: Lucinda M. Baier

Title: President and Chief Executive Officer

Date: August 6, 2019

/s/ Steven E. Swain

Name: Steven E. Swain

Title: Executive Vice President and Chief Financial Officer

Date: August 6, 2019