

EMERITUS CORP\WA\
Form 425
June 04, 2014

Company Update

June 2014

Filed by Brookdale Senior Living Inc.

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12

of the Securities Exchange Act of 1934

Subject Company: Emeritus Corporation

(Commission File No. 001-14012)

The following investor presentation was posted by Brookdale on its web site:

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Forward-Looking Statements

Certain statements in this Annual Report and other information we provide from time to time (including statements with respect to the "Merger") and the pending transactions with HCP, Inc. (the "HCP Transactions") may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those that are forward-looking, but not limited to, statements relating to our operational initiatives and growth strategies and our expectations regarding their effect on the economy, the senior living industry, occupancy, revenue, cash flow, operating income, expenses, capital expenditures, Program 1000 housing, the home resale market, expansion, development and construction activity, acquisition opportunities, asset disposition, operating returns on invested capital and taxes; our expectations regarding returns to shareholders and our growth prospects; our expectations regarding acquired communities and the effects of acquisitions on our financial results; our ability to secure financing or repay, replace or restructure our debt and remain in compliance with all of our debt and lease agreements (including the financial covenants contained therein); our expectations regarding financings and refinancings of assets (including the timing thereof) and their effect on our results; our expectations regarding reimbursement programs and their effect on our results; our plans to generate growth organically through occupancy improvement, the achievement of operating efficiencies and cost savings; our plans to expand our offering of ancillary services (therapy, home health care, etc.); to redevelop and reposition existing communities; our plans to acquire additional communities, asset portfolios, operating companies, etc.; our costs for our expansion, redevelopment and repositioning program; our expected levels of expenditures and reimbursements (including sales, marketing and branding initiatives and their impact on our results; our expectations for the performance of our entrance fees); our ability to address industry trends and their effect on our business; our expectations regarding the payment of dividends; our ability to increase our income From Facility Operations, and/or Facility Operating Income (as such terms are defined herein); and our expectations regarding the use of "anticipate(s)", "expect(s)", "intend(s)", "plan(s)", "target(s)", "project(s)", "predict(s)", "believe(s)", "may", "will", "would", "could", "might" expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations, risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although our forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors which could affect our future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to, the current economic situation and its impact upon capital markets and liquidity; changes in governmental reimbursement programs; our inability to obtain financing (including of credit facilities) as it matures; the risk that we may not be able to satisfy the conditions precedent to exercising the extension of our debt; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing which may not generate sufficient cash flow to cover required interest and long-term operating lease payments; the effect of our indebtedness on our ability of loss of property pursuant to our mortgage debt and long-term lease obligations; the possibilities that changes in the capital markets, spreads, or other factors could make financing more expensive or unavailable to us; our determination from time to time to purchase or sell; our ability to fund any repurchases; our ability to effectively manage our growth; our ability to maintain consistent quality control; our ability to may not be able to expand, redevelop and reposition our communities in accordance with our plans; our ability to complete acquisitions in a competitive environment; competition for the acquisition of assets; our ability to obtain additional capital on terms acceptable to us; a decrease in the overall economic downturns; acts of nature in certain geographic areas; terminations of our resident agreements and vacancies in the limited care; renewal of management agreements; increased competition for skilled personnel; increased union activity; departure of our key personnel; environmental contamination at any of our communities; failure to comply with existing environmental laws; an adverse determination of the cost and difficulty of complying with increasing and evolving regulation; risks relating to the Merger and the HCP Transactions; our ability to conditions to such transactions; unanticipated difficulties and/or expenditures relating to such transactions; the risk that regulatory changes may be obtained or are obtained subject to conditions that are not anticipated; uncertainties as to the timing of such transactions; litigation relating to such transactions on relationships with residents, employees and third parties; and the inability to obtain, or delays in obtaining cost-effective financing as other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other documents. "Factors" included in the accompanying Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or circumstances on which any statement is based.

Additional Information

In connection with the Merger, the Company has filed with the SEC a Registration Statement on Form S-4 that includes a joint prospectus of the Company and Emeritus that also constitutes a prospectus of the Company, as well as other relevant documents concerning the proposed transaction. **STOCKHOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE MERGER AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS TO THOSE DOCUMENTS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION.** A free copy of the joint proxy statement and other filings containing information about the Company and Emeritus may be obtained at the SEC's Internet site (<http://www.sec.gov>) and you are also able to obtain these documents, free of charge, from the Company at www.brookdale.com under the heading "About Brookdale" or from Emeritus at www.emeritus.com under the heading "Investor Relations."

The Company and Emeritus and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from

the
Company's
and
Emeritus'
stockholders
in
connection
with
the
Merger.
Information
about
the
directors
and
executive
officers
of
the
Company
and
their
ownership
of
Company
Common
Stock
is
set
forth
in
the
Annual

Report
on
Form
10-K/A,
as
filed
with
the
SEC
on
April
30,

2014. Information about the directors and executive officers of Emeritus and their ownership of Emeritus Common Stock is set forth in Emeritus' Annual Report on Form 10-K/A, as filed with the SEC on April 30, 2014. Additional information regarding the interests of the following participants

and
other
persons
who
may
be
deemed
participants
in
the
Merger
may
be
obtained
by
reading
the
joint
proxy
statement
regarding

the Merger. Free copies of this document may be obtained as described in the preceding paragraph. This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in

any
jurisdiction
in
which
such
offer,
solicitation
or
sale
would
be
unlawful

prior
to
registration
or
qualification
under
the
securities
laws
of
any

such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10
Securities Act of 1933, as amended.

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Brookdale Overview
Unit Mix by Product Type
4
Company Highlights
Favorable Payor Mix
Independent Living
Rental
22,333
34%
Independent Living
Entry Fee
5,679
9%
Assisted Living
27,350

41%
Alzheimer's Care
6,971

11%
Skilled Nursing
3,992

6%
Note: All data as of March 31, 2014.
Largest operator of senior housing in the
United States
Operates 647 communities in 36 states

Most diversified service continuum and
broadest geographic footprint in the industry

Capacity to serve approximately 66,000
residents
Ancillary services platform unique to
Brookdale

Offers a fully-integrated set of ancillary
services (home health, therapy, and/or
hospice) to its residents
Real estate ownership of 44% of its units
80% of revenue generated from private pay
sources

Medicare
Ancillary

8%
Medicare
SNF

6%
Medicaid

3%
Insurance

3%
Private Pay

80%

Key Investment Considerations

Positive industry dynamics

Broadest range of solutions to meet the needs of a growing and increasingly frail senior population

Largest provider with broad geographic presence and national brand

Significant near and long-term growth opportunities

Sustainable organic growth

Opportunities to redevelop and enhance current portfolio

Accretive acquisition opportunities in highly fragmented market

Definitive agreement to merge with Emeritus

Definitive
agreement

with
HCP
to
restructure
Emeritus
leases
and
create Entry Fee CCRC joint venture
5

Improving Industry Operating Environment

(\$ in millions)

6

Facility Operating Income

Adjusted EBITDA

(2)

Total Fee Revenues

Cash From Facility Operations

(2)

(1)

Note: See reconciliations of Non-GAAP measures at the end of the presentation

(2)

Excludes integration, transaction and EMR roll-out costs of \$14.4 million, \$23.5 million and \$14.5 million for the full years of 2013 and 2014, and \$14.5 million for the first quarter of 2014

2,023

2,213
2,305
2,445
2,546
2,631
-
500
1,000
1,500
2,000
2,500
3,000
2009
2010
2011
2012
2013
2014 Q1
Ann.
690
744
758
759
812
853
0
100
200
300
400
500
600
700
800
900
2009
2010
2011
2012
2013
2014 Q1
Ann.
349
408
417
433
478
479
0
100

200
300
400
500
600
2009
2010
2011
2012
2013
2014 Q1
Ann.
197
241
254
262
308
317
0
50
100
150
200
250
300
350
2009
2010
2011
2012
2013
2014 Q1
Ann.

Favorable Demographics

Sources: U.S Census Bureau National Health Interview 2003-2007 and Population projections; Alzheimer's Association 2013

Senior population is estimated to grow 3x faster than base population

According to the U.S. Census Bureau, people 75 and over are expected to represent 12% of the population by 2030 (compared to just 6% in 2012)

Need for assistance increases progressively with aging; one in three over the age of 85 have Alzheimer's

Strong Population Growth

Millions of People

Need for Assistance Grows Dramatically

% of Population with limitation in three or more Activities of Daily Living

Population projection for 75 and older

7

15.0

20.0
25.0
30.0
35.0
7%
15%
40%
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
65-74
75-84
85+

Supply-Demand Fundamentals

New construction starts increasing, but remain at historic low levels

Currently, only 1.9 million units serving a population of 12.0 million seniors

(approx. 15% penetration rate)

1% increase in penetration is more than 100,000 new residents

(1) Source: American Seniors Housing Association, NIC Map, PREI Research

Construction Starts in Top 31 Metros (Units)

(1)

8

-

5,000

10,000

15,000

20,000

25,000

30,000
35,000
40,000
45,000
50,000
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

Organic Growth

Improving revenue growth with controlled costs produces significant cash flow growth

High incremental margins from fixed cost structure

Upside potential in occupancy and rate

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Improving Occupancy Trends

(1)

Improving Same Store Pricing Growth

4.5%

4.0%

2.0%

1.0%

2.5%

1.6%

2.4%
-1.0%
0.0%
1.0%
2.0%
3.0%
4.0%
5.0%

2007
2008
2009
2010
2011
2012
2013

Same Store Pricing Growth

Inflation

-
CPI
90.7%
89.6%
86.5%
87.1%
87.3%
88.0%
88.7%
84.0%
85.0%
86.0%
87.0%
88.0%
89.0%
90.0%
91.0%
92.0%

2007
2008
2009
2010
2011
2012
2013

10

Ancillary Services Growth Opportunities

Brookdale has a unique, fully-integrated ancillary services platform

Strategic
component
of
our
service
offerings
providing
solutions
to

address rising acuity, increases length of stay

Strategic differentiator in evolving post-acute care continuum
Growth Opportunities

Rolling out services to new unit capacity through acquisitions,
expansions or additional third-party management agreements

Adding services such as hospice, private pay home care, private pay
case
management
and
taking
services
outside
the
walls
to
the
community in general

Development Growth (Program Max)

Current development program focused on repositioning and expanding communities in current portfolio

Respond to changing customer needs by adding higher demand levels of care and services

Expect to generate 12% - 15% unlevered returns with lowest risk profile

Large pipeline of potential future Program Max projects
Highest capital deployment priority, with best returns

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Building Market Leading Brand

Began in May 2013 to build the industry's first truly national brand
Striving to become the recognized provider of solutions as seniors and their adult children grapple with the confusing landscape of choices
Diversified service continuum positions Brookdale with many of the potential choices

National ad campaign is focused on facilitating conversations regarding those choices before it becomes critical

Involves a multi-layered approach that combines national and local market activities
Brand equity creates preference and drives loyalty with residents and their families and with lessors and managed / JV partners

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Name of Presentation | Date of Presentation
Brookdale Merger with Emeritus

Transaction Overview

Exchange Ratio

Each share of ESC will be converted into 0.95 of a share of BKD

Ownership

73.1% BKD / 26.9% ESC

Shares Outstanding

Expect to have 172mm (approx.) shares outstanding following the merger

Expected Close

Expected to close in the third quarter of 2014

Brookdale

Senior

Living

(BKD)

is

merging
with
Emeritus
Corporation
(ESC)
in
a
100% stock-for-stock transaction
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Combined Company Overview

Merger creates the largest owner-operator of senior housing in the U.S with approximately 1,200 properties and 113,000 units

\$4.9bn of combined revenues in 2013

over 80% from private pay sources

Diversified Product Mix

Diversified Operating Model

Independent

Living

Managed

Skilled Nursing

Assisted

Living

Owned

Leased

Memory
Care
15
(Properties)
(% of Total)
(Properties)
(% of Total)
38,442
34%
55,352
49%
18,900
17%
59,026
52%
14,055
12%
34,449
31%
5,164
5%

Builds Out Geographic Coverage

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Emeritus Significantly Expands Brookdale's Coverage and Density in Key Geographies

Will have a presence
in all top 31 markets,
with a #1 position in
18 markets

Will have a presence
in 88 of the top 100
markets

There will be 6.5
million of those 80+
and 37.7 million of
those age 50 to 69
(adult influencers)

living within 10 miles
of a post-merger
community

Brookdale

Emeritus

Combined portfolio reaches 330 markets, covering 81% of the U.S. population

Agreement with HCP to Restructure ESC Leases

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HCP has agreed to restructure all 202 ESC leases

Adds \$0.10 of Year 3 accretion through rent reductions and improved economics of RIDEA assets

Deleverage and de-risk ESC NNN lease portfolios through rent reductions

Immediate monetization and value creation from ESC purchase options with HCP

In consideration, BKD will cancel 49 purchase options and pay \$34 million (\$24 million net of deposits) for lease restructuring over 2 years

(1)

Annual rent reductions drive cash flow; \$8.0 million in 2016 and \$9.0 million thereafter

HCP to provide \$100 million of capital

expenditures through 2017

Eliminates all FMV rent resets

Amended initial term to 15 years on average
with new purchase options totaling \$60 million
on under-performing properties

BKD acquires 20% JV interest for \$68 million,
financed by HCP at 7%

Eliminates

negative

EBITDA

terminates

leases with negative coverage and above
market escalators

Current rent coverage 0.84x before

capex

BKD receives management fees, all ancillary
revenues and future participation in 20% of
net cash flows 2017 and beyond

(1)

49 purchase options reflect present value of \$130-\$160 mm based on 7.25% to 7.75% FMV cap rate range on seniors housing

5,400

Units

79.7%

occupancy

17

year

Avg.

Age

12,800

Units

90.6%

occupancy

16

year

Avg.

Age

49 Properties Converted to RIDEA JV

153 Properties Amended NNN Leases

Also Creates Unique \$1.2 billion CCRC Joint Venture
BKD
will
own
51%
and
HCP
49%
of
a
JV
that
owns
and
operates

\$1.2
billion
of
entry
fee CCRCs

5% management fee, 2% of entry fee resale cash receipts, 2% incentive fee

Pro rata sharing of cash flows; all ancillary revenue stays with
BKD
Significant consolidation potential in entry fee CCRC industry

1,860 entry fee CCRC communities
81% are typically highly levered non-profits

Little new supply being developed

Benefit as housing market continues to recover
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Portfolio Snapshot
JV Capitalization at Inception

7,000
Units
81.0%
occupancy
22
year
Avg.
Age
(1)

Contribution of eight owned and two leasehold campuses (with related purchase options)

IL 67%
AL 11%
ALZ 4%
SNF 18%

Sources
(millions)
BKD Equity
(1)

\$516
HCP
Equity
\$495
In-Place
Mortgage Debt
\$220
Total
\$1,231

Partnership & Merger Drive Potential Upside

19

Management

Base

Case

Year

3

Accretion

Leverage for Potential Upside

Value of remaining purchase options

Program Max 2.0 at ESC properties

Implement innovative products/services

to capture residents

healthcare spend

Additional synergies and cost savings

New RIDEA joint venture

New EF CCRC joint venture

G&A

\$0.14

Property Level OpEx

\$0.12

New Ancillary Services

\$0.14

Additional Accretion from

Enhanced

HCP Partnership

\$0.10

Total CFFO/Share Accretion

\$0.50

Roadmap to Closing

1.
Customary regulatory and lender approvals

2.
BKD and ESC shareholder approvals

3.
Closing expected in the third quarter of 2014

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Brookdale Non-GAAP Financial Measure Definitions

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Adjusted EBITDA

Cash From Facility Operations

Facility Operating Income

Facility Operating Income is not a measurement of operating performance calculated in accordance with GAAP and should not substitute for net income, income from operations, or cash flows provided by or used in operations, as determined in accordance with GAAP. Facility Operating Income is defined as net income (loss) before provision (benefit) for income taxes, non-operating (income) expense items, (gain) loss on disposal of property, gain (loss) on sale of communities (including gain (loss) on facility lease termination), depreciation and amortization (including non-cash impairment losses), general and administrative expense, including non-cash stock-based compensation expense, change in future service obligations, and entrance fee revenue and management fees.

Cash From Facility Operations (CFFO) is a measurement of liquidity that is not calculated in accordance with GAAP and should not substitute for cash flows provided by or used in operations, as determined in accordance with GAAP. We define CFFO as net cash provided by operating activities adjusted for changes in operating assets and liabilities, deferred interest and fees added to principal, refund of entrance fee receipts, and entrance fee receipts at a recently opened entrance fee CCRC prior to stabilization, entrance fee refunds disbursed at the end of the period.

entrance fee refunds not replaced by second generation entrance fee receipts at the recently opened community prior to stabilization, amortization with fair market value or no purchase options, gain (loss) on facility lease termination, recurring capital expenditures from unconsolidated ventures from cumulative share of net earnings, CFFO from unconsolidated ventures, and other. Recurring capital expenditures capitalized in accordance with GAAP that are funded from current operations. Amounts excluded from recurring capital expenditures primarily of major projects, renovations, community repositionings, expansions, systems projects or other non-recurring or unusual integration capital expenditures) or community purchases that are funded using lease or financing proceeds, available cash and other resources of communities that are held for sale.

Adjusted EBITDA is a measure of operating performance that is not calculated in accordance with U.S. generally accepted accounting principles. Adjusted EBITDA should not be considered in isolation or as a substitute for net income, income from operations or cash flow as determined in accordance with GAAP. Adjusted EBITDA is a key measure of the Company's operating performance used by management to evaluate operating performance and management without mixing in items of income and expense that relate to long-term contracts and other items not in the business. We define Adjusted EBITDA as net income (loss) before provision (benefit) for income taxes, non-operating (income) from sale or acquisition of communities (including gain (loss) on facility lease termination), depreciation and amortization (including straight-line lease expense (income), amortization of deferred gain, amortization of deferred entrance fees, non-cash stock-based compensation, change in future service obligation and including entrance fee receipts and refunds (excluding (i) first generation entrance fee refunds at the recently opened entrance fee CCRC prior to stabilization and (ii) first generation entrance fee refunds not replaced by second generation entrance fee receipts at the recently opened community prior to stabilization).

Brookdale Adjusted EBITDA Reconciliation

The table below reconciles Adjusted EBITDA from net (loss) income for the full years 2009 through 2013 and three months ended March 31, 2014 (*in thousands*):

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Three Months

Ended March 31,

2009

2010

2011

2012

2013

2014

Net loss

(66,255)

\$

(48,901)
 \$
 (68,175)
 \$
 (66,467)
 \$
 (3,584)
 \$
 (2,299)
 \$
 Provision (benefit) for income taxes
 (32,926)
 (31,432)
 2,340
 1,519
 1,756
 1,006
 Equity in (earnings) loss of unconsolidated ventures
 (440)
 (168)
 (1,432)
 3,488
 (1,484)
 (636)
 Loss on extinguishment of debt, net
 1,292
 1,557
 18,863
 221
 1,265
 -
 Other non-operating expense (income)
 (4,146)
 1,454
 (56)
 (593)
 (2,725)
 (465)
 Interest expense:
 Debt
 99,653
 102,245
 93,229
 98,183
 96,131
 23,844
 Capitalized lease obligation
 29,216
 30,396
 31,644

30,155
 25,194
 6,154
 Amortization of deferred financing costs and debt discount
 9,505
 8,963
 13,427
 18,081
 17,054
 4,018
 Change in fair value of derivatives and amortization
 (3,765)
 4,118
 3,878
 364
 (980)
 847
 Interest income
 (2,354)
 (2,238)
 (3,538)
 (4,012)
 (1,339)
 (321)
 Income from operations
 29,780
 65,994
 90,180
 80,939
 131,288
 32,148
 Facility lease termination (gain) expense
 -
 4,608
 -
 (11,584)
 -
 -
 Depreciation and amortization
 271,935
 292,341
 268,506
 252,281
 268,757
 70,316
 Asset impairment
 10,073
 13,075
 16,892
 27,677

12,891

-

Loss (gain) on sale of communities

2,043

(3,298)

-

-

-

-

Loss (gain) on acquisition

-

-

(1,982)

636

-

-

Straight-line lease expense

15,851

10,521

8,608

6,668

2,597

(223)

Amortization of deferred gain

(4,345)

(4,343)

(4,373)

(4,372)

(4,372)

(1,093)

Amortization of entrance fees

(21,661)

(24,397)

(25,401)

(25,362)

(29,009)

(7,202)

Non-cash stock-based compensation expense

26,935

20,759

19,856

25,520

25,978

7,572

Change in future service obligation

(2,342)

(1,064)

-

2,188

(1,917)

-
Entrance fee receipts
68,875
73,906
67,989
82,705
92,331
14,959
First generation entrance fees received
(25,673)
(18,548)
(12,617)

-
-
-
Entrance fee disbursements
(22,916)
(21,060)
(24,993)
(27,356)
(35,325)
(8,446)

Adjusted EBITDA

348,555

\$

408,494

\$

402,665

\$

409,940

\$

463,219

\$

108,031

\$

Years Ended December 31,

(2)

(3)

(4)

Brookdale Cash From Facility Operations Reconciliation

23

The table below reconciles Cash from Facility Operations (CFFO) from net (loss) income for the full years 2009 through 2013 ended March 31, 2014 (*in thousands*):

Three Months

Ended March 31,

2009

2010

2,011

2012

2013

2014

Net cash provided by operating activities

237,220

\$

228,244

\$

268,427

\$

290,969

\$

366,121

\$

52,696

\$

Changes in operating assets and liabilities

4,532

46,674

20,914

(20,698)

(33,198)

28,558

Refundable entrance fees received

30,386

36,420

29,611

42,600

48,140

5,924

First generation entrance fees received

(25,673)

(18,548)

(12,617)

-

-

-

Entrance fee refunds disbursed

(22,916)

(21,060)

(24,993)

(27,356)

(35,325)

(8,446)

Recurring capital expenditures, net

(19,522)

(27,969)

(33,661)

(38,306)

(42,901)

(9,369)

Lease financing debt amortization with fair market value or no purchase options

(7,195)

(8,972)

(10,465)

(12,120)

(13,927)

(3,897)

Facility lease termination (gain) expense

-

4,608

-

-

-

-

Distributions from unconsolidated ventures from cumulative share of net earnings

-

(775)

(582)

(1,507)

(2,691)

(245)

CFFO from unconsolidated ventures

-

2,050

3,289

5,376

7,804

2,241

Cash From Facility Operations

196,832

\$

240,672

\$

239,923

\$

238,958

\$

294,023

\$

67,462

\$

Years Ended December 31,

Brookdale Facility Operating Income Reconciliation

24

Three Months

Ended March 31,

2009

2010

2011

2012

2013

2014

Net loss

(66,255)

\$

(48,901)

\$

(68,175)
 \$
 (66,467)
 \$
 (3,584)
 \$
 (2,299)
 \$
 Provision (benefit) for income taxes
 (32,926)
 (31,432)
 2,340
 1,519
 1,756
 1,006
 Equity in (earnings) loss of unconsolidated ventures
 (440)
 (168)
 (1,432)
 3,488
 (1,484)
 (636)
 Loss on extinguishment of debt
 1,292
 1,557
 18,863
 221
 1,265
 -
 Other non-operating expense (income)
 (4,146)
 1,454
 (56)
 (593)
 (2,725)
 (465)
 Interest expense:
 Debt
 99,653
 102,245
 93,229
 98,183
 96,131
 23,844
 Capitalized lease obligation
 29,216
 30,396
 31,644
 30,155
 25,194

6,154
 Amortization of deferred financing costs and debt discount
 9,505
 8,963
 13,427
 18,081
 17,054
 4,018
 Change in fair value of derivatives and amortization
 (3,765)
 4,118
 3,878
 364
 (980)
 847
 Interest income
 (2,354)
 (2,238)
 (3,538)
 (4,012)
 (1,339)
 (321)
 Income from operations
 29,780
 65,994
 90,180
 80,939
 131,288
 32,148
 Facility lease termination (gain) expense
 -
 4,608
 -
 (11,584)
 -
 -
 Loss (gain) on sale of communities
 2,043
 (3,298)
 -
 -
 -
 Depreciation and amortization
 271,935
 292,341
 268,506
 252,281
 268,757
 70,316

Asset impairment
 10,073
 13,075
 16,892
 27,677
 12,891
 -
 Loss (gain) on acquisition
 -
 -
 (1,982)
 636
 -
 -
 Change in future service obligation
 (2,342)
 (1,064)
 -
 2,188
 (1,917)
 -
 Facility lease expense
 272,096
 270,905
 274,858
 284,025
 276,729
 69,869
 General and administrative (including non-cash
 stock-based compensation expense)
 134,864
 131,709
 148,327
 178,829
 184,548
 55,509
 Amortization of entrance fees
 (21,661)
 (24,397)
 (25,401)
 (25,362)
 (29,009)
 (7,202)
 Management fees
 (6,719)
 (5,591)
 (13,595)
 (30,786)
 (31,125)
 (7,402)

Facility Operating Income

690,069

\$

744,282

\$

757,785

\$

758,843

\$

812,162

\$

213,238

\$

Years Ended December 31,

The table below reconciles Facility Operating Income from net (loss) income for the full years 2009 through 2013 and three months ended December 31, 2014 (*in thousands*):