

The Art of Optimum Life®



Financial Highlights	2007		2006	
(in thousands, except per share data)		_		
Selected Operating Data				
Total revenue	1 839 296	\$	1,309,913	
Facility operating expense	1,170,937	Ψ	819,801	
General and administrative (including non-cash stock-based compensation	1,170,237		012,001	
expense of \$20,113 and \$26,612, respectively)	138,013		117,897	
Facility lease expense	271,628		228,779	
Depreciation and amortization	299,925		188,129	
Loss from operations	(41,207)		(44,693)	
Net loss. \$	(161,979)	\$	(108,087)	
Net loss per share of common stock, basic and diluted \$	(1.60, 97.9)	э \$	(1.34)	
Adjusted EBITDA <sup>(1)</sup>	306,379	\$	200,621	
Cash From Facility Operations <sup>(2)</sup> \$	148,835	\$	90,902	
Facility Operating Income <sup>(3)</sup>	642,329	\$	476,346	
Selected Balance Sheet Data				
Property, plant and equipment and leasehold intangibles, net\$	3,760,453	\$	3,672,333	
Cash and cash equivalents	100,904	\$	68,034	
Total assets	4,811,622	\$	4,756,000	
Long-term debt obligations\$	2,137,224		1,711,439	
Stockholders' equity	1,419,538		1,764,012	
Common shares outstanding (excluding unvested restricted shares)	101,942		101,261	
Stock Performance Data				
Closing share price on December 29, 2006		\$	48.00	
Closing share price on December 31, 2007\$	28.41			
Dividends declared for the year ended December 31, 2007\$	1.95			
Dividends declared for the year ended December 31, 2006		\$	1.55	

- (1) Adjusted EBITDA is a measure of operating performance that is not calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). Adjusted EBITDA should not be considered in isolation or as a substitute for net income, income from operations or cash flows provided by or used in operations, as determined in accordance with GAAP. Adjusted EBITDA is a key measure of the Company's operating performance used by management to focus on operating performance and management without mixing in items of income and expense that relate to long-term contracts and the financing and capitalization of the business. We define Adjusted EBITDA as net income (loss) before provision (benefit) for income taxes, non-operating (income) loss items, depreciation and amortization, straight-line lease expense (income), amortization of deferred gain, amortization of deferred entrance fees, and non-cash compensation expense and including entrance fee receipts and refunds.
- (2) Cash From Facility Operations is a measurement of liquidity that is not calculated in accordance with GAAP and should not be considered in isolation as a substitute for cash flows provided by or used in operations, as determined in accordance with GAAP. We define Cash From Facility Operations as net cash provided by (used in) operating activities adjusted for changes in operating assets and liabilities, deferred interest and fees added to principal, refundable entrance fees received, entrance fee refunds disbursed, other and recurring capital expenditures. Recurring capital expenditures include expenditures capitalized in accordance with GAAP that are funded from Cash From Facility Operations. Amounts excluded from recurring capital expenditures consist primarily of unusual or non-recurring capital items (including integration capital expenditures), facility purchases and/or major projects or renovations that are funded using financing proceeds and/or proceeds from the sale of facilities that are held for sale.
- (3) Facility Operating Income is not a measurement of operating performance calculated in accordance with GAAP and should not be considered in isolation as a substitute for net income, income from operations, or cash flows provided by or used in operations, as determined in accordance with GAAP. We define Facility Operating Income as net income (loss) before provision (benefit) for income taxes, non-operating (income) loss items, depreciation and amortization, facility lease expense, general and administrative expense, including non-cash stock compensation expense, amortization of deferred entrance fee revenue and management fees.

Note: See enclosed Form 10-K for non-GAAP reconciliations.



# THE ART OF OPTIMUM LIFE®

At Brookdale Senior Living we are all about people serving people. As a leading national provider of senior living communities and related services, we work each day to inspire our 33,000 associates to deliver exceptional service and care for the 52,000 seniors we serve in nearly 550 locations across the United States.

With high quality accommodations, superior dining experiences, and exceptional programs, care and services, our Brookdale communities provide value while striving to exceed the expectations of our residents and their families. Our objective remains: constant innovation of new methods for delivering better services and healthy, fulfilling lifestyles to those who call Brookdale communities home.



This year, as we focus on the art of senior living – Brookdale style – we are also proud to showcase a sampling of the artistic talents and creativity of a number of our residents, and introduce these artists to you as examples of how some choose to lead an "Optimum Life®" in Brookdale communities.

Cover Art: Untitled, by Joan Vaughan, a resident of Clare Bridge Williamsville, NY.





Joan Vaughan grew up in Buffalo, NY and attended Nardin Academy and the Bryant Business Institute. She has four children, five grandchildren, and one great-grandchild. Joan and her husband enjoyed visiting local galleries and trips to Crescent Beach.



#### TO OUR SHAREHOLDERS

After doubling our size during 2006, Brookdale Senior Living entered 2007 committed to an ambitious series of initiatives to ensure the quality of our operations and to solidify our culture:

- We continued implementation of a major systems integration effort begun in 2006 and to be completed in 2008 that will provide our associates with the tools they need to maintain our leadership position in the industry.
- We executed an aggressive expansion of therapy, wellness and home health care services.
- We assimilated the numerous acquisitions made over the last three years while instilling and reinforcing the core values of our operating philosophy throughout the still-growing family of Brookdale associates.

These are profoundly important foundation-building activities that will allow Brookdale to continue to grow and strengthen in this challenging economic climate.

We believe that our key financial performance measurement is operating cash flow, which we define as "Cash From Facility Operations," or "CFFO." During 2007, we achieved CFFO per share growth of 38% over 2006, a result that fell short of our expectations, even in light of the unexpectedly weak economic environment. Although 38% growth would be a strong result for many other companies, our expectations for Brookdale are high, and we remain confident that much of what we accomplished in 2007 sets the stage for strong results in 2008 and the coming years.



We believe in the strength of our business model and in our ability to benefit from the long-term sector dynamics of an aging and increasingly affluent population, growing consumer acceptance of senior housing and lack of significant new supply to meet the growing demand.

#### **INDUSTRY FUNDAMENTALS**

The fundamentals of the senior living industry remain very compelling. Demographic projections suggest strong and growing demand, with 400,000 people reaching 70 years of age on average every year for the next 10 years, with increasing income levels from retirement savings and pensions. It is noteworthy that those over the age of 70 have



home equity values worth well over one trillion dollars in the aggregate, and 70% of homeowners over 70 own their homes mortgage-free. Currently, approximately 7% of those over 70 in the United States live in senior housing, and the percentage is much higher in certain areas of the country with a longer history of familiarity with senior housing. We expect this penetration rate to continue to move upward with market trends and increasing consumer awareness.

On the supply side, industry estimates show new construction of senior housing units continues to run below the rate of 30,000 new units needed annually just to meet expected demand. In fact, the current credit crisis has limited the availability of financing for most new construction projects, resulting in a supply/demand imbalance favoring existing owners and operators. It is also noteworthy that, in spite of the credit crunch, financing for existing quality, stabilized senior living assets has remained available at attractive terms.

#### **BROOKDALE'S POSITION AND STRATEGY**

During 2007, we made great strides toward enhancing Brookdale's leadership position in the marketplace:

- This last year we substantially completed our efforts toward integrating the companies and portfolios we have acquired, creating a common technology, process and operational platform. By the end of 2007, we launched many new enterprise-wide systems, strengthening our ability to support and control our business.
- On January 1, 2008 Brookdale rolled out a new field organization structure based on geographic divisions
  rather than on product lines. Now all of Brookdale's product types and service offerings work together more
  cohesively within each geographic region, producing overhead efficiencies, better field support and better
  allocation of resources.
- Brookdale has the broadest array of service offerings in the marketplace. Our goal is to offer a unique continuum of care across every one of our markets so that all our residents' needs can be met over time and any resident can be welcomed at the appropriate level of care. We already have achieved our continuum of care ideal in many major markets, and filling out the continuum is a central objective of our expansion program.
- We continue to refine the delivery of services designed for our residents. For example, we have made significant progress with our resident health- and wellness-related services programs. By the end of 2007, we opened new clinics in our buildings that enabled us to provide therapy service offerings to over 12,000 additional units in the Brookdale portfolio, for a total of approximately 28,000 units. We expect to introduce our therapy services to 8,000 additional Brookdale units in 2008. Also, during 2007, we introduced our home care services



into communities with approximately 7,400 units and expect to add another 7,500 units in 2008. These services contribute more than just attractive economics; they improve customer satisfaction and retention, and they add a very strong market advantage as consumers evaluate the best available environment for receiving the health care services they will need.

Having been built on successive mergers of some of the best companies in our industry, we have become a national company with demonstrated competency across a broad spectrum of health care and senior living. We have the unique ability to take successful program innovations and best practices from any of our product lines and adapt and apply them across our organization. Whether this is an automated labor management tool developed in assisted living, wellness and preventative health plans designed in our ancillary services program, or an upscale dining experience developed in our independent living communities, we have the leadership, creativity, and experience to



apply these programs across all of Brookdale.

We also expect to continue to leverage our size and scale to Brookdale's benefit, resulting in better control of operating costs while allocating our general and administrative costs over a wider base. Another benefit of scale is that our size allows us to provide new services such as home care to a local market while the large base of facilities in that market absorbs the overhead required to introduce and deliver these services. Our size also allows us to invest the resources into programs that ensure the highest standards of quality care for our residents.

#### 2008 OUTLOOK

Given current economic conditions, we assume that we will be facing a challenging operating environment in 2008. Nonetheless, we believe we can grow our CFFO per share 15% to 20% over 2007.

Many of the initiatives begun in 2007 will continue to strengthen our business and deliver for us in 2008. As described in this report, we developed a new market management program that integrates sales and marketing of all our products and allows us to meet our customers at their unique point of need. We have created strategic advertising campaigns and innovative sales training programs, and have established a national Brookdale brand for



all of our communities. We strengthened our referral source network with new relationships, and introduced a powerful new marketing-oriented website. At the same time, we have maintained our pricing discipline and remain focused on previous turnaround acquisitions, where necessary renovations and improved product repositioning will drive demand. We will also benefit from the full year effect of the fill-up of the expansion units that opened in 2007 as well as the initial fill of the 300 to 400 units we will open in 2008.

We are excited by the incredibly bright, long-term potential of the senior housing industry in general and our company, in particular. Once our customers begin to perceive that the economic environment has stabilized, we



Bill Sheriff, Chief Executive Officer

expect to see strong growth from expanding occupancy. Though we have no way to predict the exact timing, we should see the positive results of this reaction quite quickly and before the economy is "officially" in recovery.

Let me close by saying that at Brookdale we are strongly focused on building shareholder value. We believe that our recently announced dividend adjustment and authorized stock repurchase program will begin to address some of the issues underlying what we perceive to be a dislocation between the value of our business and the price of our stock. Given the current volatility in the economic environment, we remain committed to maintaining appropriate liquidity and a balanced approach to risk. At Brookdale, we remain very excited by the prospects for the company and the opportunity we have to build something very special for our residents, our associates and our shareholders.

Sincerely,

Bill Sheriff

Chief Executive Officer



Mood Indigo, by Margie Livingston Campbell, a resident of Carriage Club Jacksonville, FL.

Margie Campbell is Founder and Chairman of "Art in the Schools," an outreach program of the Jacksonville Watercolor Society. She has received multiple awards for her work. Her paintings are displayed at City Hall, Jacksonville University and the Symphony Orchestra.







#### INSPIRED LIFESTYLES

Brookdale Senior Living communities provide a full range of housing and service alternatives:

- Retirement Centers are large, upscale communities offering residents both independent and assisted living with a variety of services and amenities.
- Assisted Living communities are designed for mid-acuity, frail residents who need assistance with the Activities of Daily Living. A portion of our assisted living—our Clare Bridge brand—is exclusively for those with dementia, Alzheimer's and related diseases.
- Continuing Care Retirement Communities (CCRCs) provide large, campus type environments for all needs of the senior population: independent living, assisted living, dementia care and skilled nursing.

Brookdale's success continues to be rooted in the expertise of our associates who are dedicated to enriching the lives of our residents every day. Over the past year, we have met many challenges: anticipating new requirements from a growing senior population that demands greater value and more services; developing enhanced programs to serve our residents; and adjusting to a changing economic environment.

During this past year, we made important advances in our exclusive signature programs. Optimum Life®, Brookdale's trademark program allowing residents to pursue their peak level of health and fulfillment, now includes a quarterly magazine as well as a growing calendar of events promoting wellness and longevity.

Brookdale's **Celebrations** program, a companion to Optimum Life®, brings together inspired dining, social and educational experiences that are crafted and themed for maximum participation and enjoyment.

Those who choose a Brookdale community understand that they are selecting much more than a comfortable living environment to call home. They have made a lifestyle decision that will enhance their opportunity to pursue health and life fulfillment.









### A COMMON STRUCTURE

In 2007, the economic and market environments changed; so did Brookdale. By consolidating our field management and organizing by geography rather than by product line, we placed both operational and sales management within a common structure. These changes enabled us to enhance our marketing efforts and operational synergies, strengthening Brookdale's position in both the local and national marketplace.

Despite the economic downturn during the latter part of the year, Brookdale maintained stable occupancy levels while operating on a disciplined pricing platform that resulted in average per unit revenue increases of more than 6.9%. During 2007, we designed and implemented Major Market Management to harvest the maximum advantage in major metropolitan areas like Kansas City, Denver and Phoenix where we operate multiple product types in numerous locations.

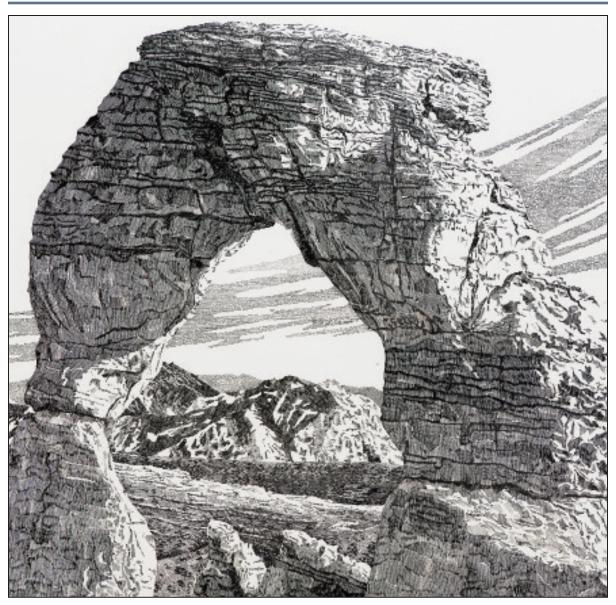
Major Market Management provides a market-wide continuum of services and pricing to meet the needs of each individual resident in the most appropriate environment while providing the continued high quality experience and brand promise for which Brookdale is known. In 2008, we are expanding this initiative to cover additional metropolitan markets with heavy concentrations of Brookdale communities.

For Brookdale, Major Market Management brings longer or extended stays within the Brookdale continuum, market dominance and the best and most efficient allocation of resources. It also establishes a marketing culture within which all Brookdale communities can be unified by a common brand, whether they cater primarily to those seeking independent living, personalized assisted living, Alzheimer's and dementia care, or continuing care.

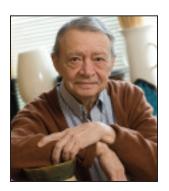








Delicate Arch, by John "Jack" Bartholomew, a resident of Trillium Place, Columbus, OH.





Jack Bartholomew received his degree in Fine Arts from The Ohio State University. He worked for 35 years as a Graphic Designer. This year he entered several ceramic pieces in the Creative Arts Event 2007, for which he was awarded three ribbons.



Ski Country, by Thelma Tavelli, a resident of Heritage Club Mountain View, Denver, CO.

Thelma Tavelli pursued her art interests after retiring from her 30 year career in accounting. She is a member of the Arvada Fine Arts Guild and the Aurora Art Guild. Her work has been part of juried and invitational exhibits throughout the region.







#### ESTABLISHING THE BRAND

Although Brookdale has undergone much change over the past three years, our Company operates with one mission, one vision and one voice. Establishing and enhancing the Brookdale brand in the marketplace remains a high priority. More than the graphic representation of our Company, the Brookdale brand underscores the benefits our communities offer to our residents, our associates and our shareholders.

During 2007, Brookdale moved forward with an ambitious branding program to differentiate our communities, services and features from other senior living companies. Our communities across the nation are now easily recognizable by their branded signage, community vehicles, sales materials and other means of community identification. Brookdale's brand standards represent trust, integrity, the highest level of service and consistently delivering on our market and customer promises.

To further this brand strategy, we designed and launched a new Brookdale website to optimize our marketing efforts in both its presentation and its functionality. More significantly, the new website is well positioned for search engine optimization, generating sales leads and providing a new way for people to learn about and experience Brookdale.

This year, we also implemented a secondary web marketing strategy, which involves partnerships with key internet companies serving the senior living industry. These technology-based relationships increase our exposure to new customers, new referral sources and the industry.









#### MASTERING THE ART

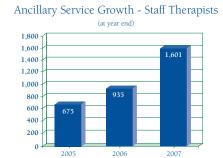
Seniors represent a unique demographic and serving them well requires much more than providing communities for them to call home. As life expectancy increases, the market increasingly demands products and services that will enhance their health, contentment and purpose in life.

Innovative Senior Care (ISC) is Brookdale's nationally branded ancillary services program providing licensed therapy and wellness services, which are designed to help residents enhance or regain their independence through comprehensive rehabilitation, exercise and education programs. ISC also offers Medicare certified home care services for those who require personalized assistance, episodic nursing care and therapy services in their apartments.

At the beginning of 2007, ISC operated 186 clinics serving approximately 16,000 residential units. By the end of the year, those numbers had expanded to 335 clinics serving over 28,000 residential units. We are well on our way to serving the vast majority of Brookdale residents with ISC services over the next two years.

Revenue from Innovative Senior Care's therapy and home care services has increased dramatically over the past three years and we expect that to continue to grow. Equally as important is that the on-site availability of ISC services at Brookdale communities has helped our residents improve and maintain their health and wellness.

Serving seniors is a noble calling...serving them well is an art form. At Brookdale we are continually working to master both our business opportunities in senior living and the art of delivering Optimum Life® to our residents.







100 Acre Woods, by Bobbi Foster, a resident of Chambrel at Club Hill, Garland, TX.





Bobbi Foster was in her late 30s when she joined the Rochester Memorial Art Gallery. After five years of art classes she entered one of her paintings in a juried show and it was chosen as a display piece. Bobbi has also done marble and clay sculptures.



#### CORPORATE DATA

Corporate Office

330 N. Wabash Avenue,

Suite 1400

Chicago, IL 60611 312.977.3700

www.brookdaleliving.com

Transfer Agent

American Stock Transfer & Trust Company

59 Maiden Lane

Plaza Level New York, NY 10038

800.937.5449

Stock Listing

NYSE: BKD

Approximate Number of Record Holders (as of April 14, 2008):

568

**Investor Relations Contact** 

Ross Roadman

Brookdale Senior Living 111 Westwood Place,

Suite 200

Brentwood, TN 37027

615.376.2412

Independent Auditors

Ernst & Young LLP 233 S. Wacker Drive

Chicago, IL 60606

2008 Annual Meeting

June 5, 2008 • 10:00 a.m. CDT

Brookdale Senior Living

111 Westwood Place, Suite 200

Brentwood, TN 37027

615.221.2250

### Governance & Certifications

Brookdale's corporate governance guidelines, code of business conduct and ethics, the charters of the principal board committees and other governance information can be accessed through the Investor Relations portion of our website, www.brookdaleliving.com.

Certifications by the Chief Executive Officer and the Chief Financial Officer of Brookdale Senior Living pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to the Company's 2007 Annual Report on Form 10-K. We also have submitted to the New York Stock Exchange (NYSE) the annual CEO Certification for 2007 regarding the Company's compliance with the NYSE's corporate governance listing standards.

#### Forward-Looking Statements

Certain statements in this Annual Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements relating to our operational initiatives; our expectations regarding the demand for senior housing, occupancy growth, our dividend adjustment and our authorized share repurchase program; our belief regarding the value of our common stock; and our ability to increase revenues, earnings, and/or Cash From Facility Operations. Words such as "anticipate(s)," "expect(s)," "intend(s)," "plan(s)," "target(s)," project(s)," "believe(s)," "will," "would," "seek(s)," "estimate(s)" and similar expressions are intended to identify such forward-looking statements. We can give no assurance that our expectations will be attained. These statements are subject to a number of risks and uncertainties that could lead to actual results materially different from our expectations, which include, but are not limited to, our determination from time to time whether to purchase any shares under the repurchase program and our ability to fund any repurchases; the risk that we may not be able to obtain any consents necessary to effect the repurchase program; the effect of our indebtedness and long-term operating leases on our liquidity; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; events which adversely affect the ability of seniors to afford our monthly resident fees or entrance fees; the conditions of housing markets in certain geographic areas; delays in obtaining regulatory approvals; a decrease in the overall demand for senior housing; our vulnerability to economic downturns; and the other risks detailed from time to time in our filings with the SEC, including those listed under "Risk Factors" in the accompanying Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this Annual Report. We expressly disclaim any obligation to release publicly any updates or revisions to any such statements.



## BOARD OF DIRECTORS

Wesley R. Edens, Chairman; Chief Executive Officer & Chairman of the Board, Fortress Investment Group LLC

William B. Doniger, Vice Chairman; Managing Director, Fortress Investment Group LLC

Frank M. Bumstead <sup>2</sup>, *Director*; Chairman and Principal Shareholder, Flood, Bumstead, McCready and McCarthy

Jackie M. Clegg <sup>1,3</sup>, *Director*; Managing Partner, Clegg International Consultants, LLC Jeffrey G. Edwards <sup>1,2</sup>, *Director*; Founder and Managing General Partner, JGE Capital Management, LLC

Jeffrey R. Leeds 1,2,3, *Director*; Self-Employed Consultant

Mark J. Schulte, *Director*; Former Co-Chief Executive Officer, Brookdale Senior Living Inc.

**Dr. Samuel Waxman** <sup>2,3</sup>, *Director*; The Albert A. and Vera G. List Professor, Mount Sinai School of Medicine

- (1) Audit Committee
- (2) Compensation Committee
- (3) Nominating and Corporate Governance Committee

## **EXECUTIVE OFFICERS**

W.E. Sheriff

Chief Executive Officer

Mark W. Ohlendorf

Co-President and Chief Financial Officer

John P. Rijos

Co-President and Chief Operating Officer

T. Andrew Smith

Executive Vice President, General Counsel & Secretary

Bryan D. Richardson

Executive Vice President & Chief Administrative Officer Kristin A. Ferge

Executive Vice President & Treasurer

George T. Hicks

Executive Vice President – Finance

H. Todd Kaestner

Executive Vice President - Corporate Development

Mark A. Kultgen

Executive Vice President - Finance

Gregory B. Richard

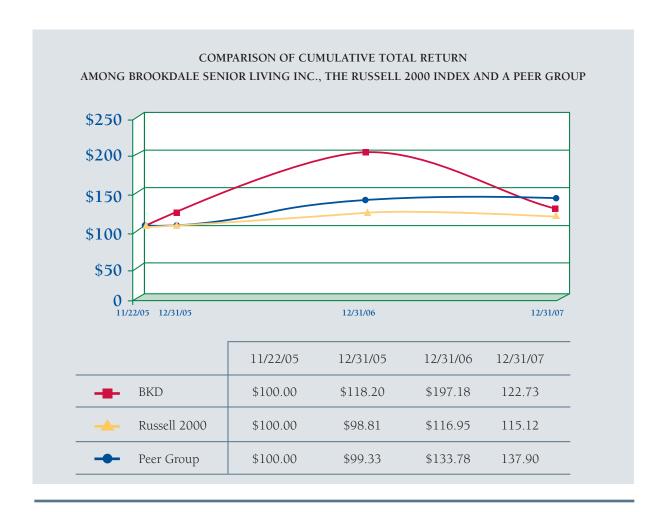
Executive Vice President - Field Operations



## Brookdale Senior Living Performance Graph

Comparison of Cumulative Return since November 22, 2005 (the date of Brookdale's initial public offering) through December 31, 2007, for Brookdale, the Russell 2000 Index and a Peer Group.

The graph below compares the cumulative total return for Brookdale common stock with the comparable cumulative return of the Russell 2000 Index and a peer group of companies composed of Emeritus Corporation, Sunrise Senior Living, Inc., Capital Senior Living Corporation, Five Star Quality Care, Inc., HCP, Inc., and Ventas, Inc. The graph assumes \$100 invested on November 22, 2005, the date of Brookdale's initial public offering, and \$100 invested at that same time in each of the Russell 2000 Index and the peer group. The comparison assumes that all dividends are reinvested.





# Our Mission

# Enriching the lives of those we serve with compassion, respect, excellence and integrity.

## OUR CORNERSTONES

- Take ownership and pride in everything we do.
- Recognize that good people make the difference and are the key to our success.
- Work together as one team.
- Provide meaningful rewards for residents, associates and shareholders.
- Respect others through honesty, understanding and trust.
- Put the resident first and the "bottom line" will take care of itself.
- Have fun and celebrate life every day.



CORPORATE HEADQUARTERS
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For more information visit our website: www.brookdaleliving.com

# Brookdale Senior Living Resident Programs:









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Innovative Senior Care<sup>SM</sup> is a Service Mark of Brookdale Senior Living, Chicago, IL, USA.

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