Brookdale Senior Living Inc.
Form 10-Q
May 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2018

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	20-3068069
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

111 Westwood Place, Suite 400, Brentwood, Tennessee	37027
(Address of principal executive offices)	(Zip Code)

(615) 221-2250
(Registrant's telephone number, including area code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

As of May 4, 2018, 187,572,373 shares of the registrant's common stock, $0.01 par value, were outstanding (excluding unvested restricted shares).

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FORM 10-Q

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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)

	March 31, 2018	December 31, 2017
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$335,412	$222,647
Marketable securities	174,649	291,796
Cash and escrow deposits – restricted	32,393	37,189
Accounts receivable, net	125,473	128,961
Assets held for sale	88,505	106,435
Prepaid expenses and other current assets, net	135,639	114,844
Total current assets	892,071	901,872
Property, plant and equipment and leasehold intangibles, net	5,775,496	5,852,145
Cash and escrow deposits – restricted	27,756	22,710
Investment in unconsolidated ventures	77,839	129,794
Goodwill	154,131	505,783
Other intangible assets, net	60,659	67,977
Other assets, net	199,476	195,168
Total assets	$7,187,428	$7,675,449
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	$535,470	$495,413
Current portion of capital and financing lease obligations	69,536	107,088
Trade accounts payable	73,358	91,825
Accrued expenses	309,998	329,966
Refundable entrance fees and deferred revenue	72,954	68,358
Tenant security deposits	2,989	3,126
Total current liabilities	1,064,305	1,095,776
Long-term debt, less current portion	3,342,840	3,375,324
Capital and financing lease obligations, less current portion	1,187,549	1,164,466
Deferred liabilities	213,912	224,304
Deferred tax liability	85,776	70,644
Other liabilities	213,485	214,644
Total liabilities	6,107,867	6,145,158
Preferred stock, $0.01 par value, 50,000,000 shares authorized at March 31, 2018 and December 31, 2017; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 400,000,000 shares authorized at March 31, 2018 and December 31, 2017; 196,976,099 and 194,454,329 shares issued and 193,797,698 and 191,275,928 shares outstanding (including 6,230,895 and 4,770,097 unvested restricted shares), respectively	1,938	1,913
Additional paid-in-capital	4,132,747	4,126,549
Treasury stock, at cost; 3,178,401 shares at March 31, 2018 and December 31, 2017	(56,440)	(56,440)
Accumulated deficit	(2,998,201)	(2,541,294)

Total Brookdale Senior Living Inc. stockholders' equity	1,080,044	1,530,728
Noncontrolling interest	(483)	(437)
Total equity	1,079,561	1,530,291
Total liabilities and equity	$ 7,187,428	$ 7,675,449

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 March 31,	
	2018	2017
Revenue		
Resident fees	$906,266	$1,016,927
Management fees	18,681	15,894
Reimbursed costs incurred on behalf of managed communities	262,287	183,945
Total revenue	1,187,234	1,216,766
Expense		
Facility operating expense (excluding depreciation and amortization of $103,168 and $114,879, respectively)	632,325	674,542
General and administrative expense (including non-cash stock-based compensation expense of $8,406 and $7,774, respectively)	76,710	65,560
Transaction costs	4,725	7,593
Facility lease expense	80,400	88,807
Depreciation and amortization	114,255	127,487
Goodwill and asset impairment	430,363	20,706
Costs incurred on behalf of managed communities	262,287	183,945
Total operating expense	1,601,065	1,168,640
Income (loss) from operations	(413,831)	48,126
Interest income	2,983	631
Interest expense:		
Debt	(45,727)	(40,573)
Capital and financing lease obligations	(22,931)	(49,859)
Amortization of deferred financing costs and debt premium (discount)	(3,956)	(2,591)
Change in fair value of derivatives	74	(46)
Debt modification and extinguishment costs	(35)	(61)
Equity in (loss) earnings of unconsolidated ventures	(4,243)	981
Gain (loss) on sale of assets, net	43,431	(603)
Other non-operating income	2,586	1,662
Income (loss) before income taxes	(441,649)	(42,333)
Provision for income taxes	(15,585)	(84,028)
Net income (loss)	(457,234)	(126,361)
Net (income) loss attributable to noncontrolling interest	46	57
Net income (loss) attributable to Brookdale Senior Living Inc. common stockholders	$(457,188)	$(126,304)
Basic and diluted net income (loss) per share attributable to Brookdale Senior Living Inc. common stockholders	$(2.45)	$(0.68)
Weighted average shares used in computing basic and diluted net income (loss) per share	186,880	185,689

See accompanying notes to condensed consolidated financial statements.

BROOKDALE SENIOR LIVING INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
Three Months Ended March 31, 2018
(Unaudited, in thousands)

	Common Stock		Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balances at January 1, 2018	191,276	$1,913	$4,126,549	$(56,440)	$(2,541,294)	$1,530,728	$ (437)	$1,530,291
Compensation expense related to restricted stock grants	—	—	8,406	—	—	8,406	—	8,406
Net income (loss)	—	—	—	—	(457,188)	(457,188)	(46)	(457,234)
Issuance of common stock under Associate Stock Purchase Plan	62	1	371	—	—	372	—	372
Restricted stock, net	2,841	28	(28)	—	—	—	—	—
Shares withheld for employee taxes	(381)	(4)	(2,614)	—	—	(2,618)	—	(2,618)
Other	—	—	63	—	281	344	—	344
Balances at March 31, 2018	193,798	$1,938	$4,132,747	$(56,440)	$(2,998,201)	$1,080,044	$ (483)	$1,079,561

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income (loss)	$(457,234)	$(126,361)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Debt modification and extinguishment costs	35	61
Depreciation and amortization, net	118,211	130,078
Goodwill and asset impairment	430,363	20,706
Equity in loss (earnings) of unconsolidated ventures	4,243	(981)
Distributions from unconsolidated ventures from cumulative share of net earnings	408	439
Amortization of deferred gain	(1,090)	(1,093)
Amortization of entrance fees	(501)	(1,198)
Proceeds from deferred entrance fee revenue	1,109	1,927
Deferred income tax provision	15,037	83,310
Straight-line lease (income) expense	(6,165)	(3,007)
Change in fair value of derivatives	(74)	46
(Gain) loss on sale of assets, net	(43,431)	603
Non-cash stock-based compensation expense	8,406	7,774
Non-cash interest expense on financing lease obligations	3,383	6,156
Amortization of (above) below market lease, net	(1,938)	(1,697)
Non-cash management contract termination fee	(2,242)	—
Other	(156)	(1,398)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,488	3,556
Prepaid expenses and other assets, net	(24,807)	(8,630)
Accounts payable and accrued expenses	(21,370)	(51,627)
Tenant refundable fees and security deposits	(137)	(297)
Deferred revenue	12,426	8,406
Net cash provided by operating activities	37,964	66,773
Cash Flows from Investing Activities		
Change in lease security deposits and lease acquisition deposits, net	(2,015)	(420)
Sale of marketable securities, net	118,273	—
Additions to property, plant and equipment and leasehold intangibles, net	(66,592)	(48,928)
Acquisition of assets, net of related payables and cash received	(27,330)	—
Investment in unconsolidated ventures	(8,434)	(185,971)
Distributions received from unconsolidated ventures	2,037	1,807
Proceeds from sale of assets, net	75,060	31,675
Property insurance proceeds	156	1,398
Other	—	696
Net cash provided by (used in) investing activities	91,155	(199,743)
Cash Flows from Financing Activities		
Proceeds from debt	30,168	34,455
Repayment of debt and capital and financing lease obligations	(44,001)	(52,273)
Payment of financing costs, net of related payables	(248)	(328)
Proceeds from refundable entrance fees, net of refunds	223	(902)

Payments of employee taxes for withheld shares	(2,618)	(5,112)
Other	372	599
Net cash used in financing activities	(16,104)	(23,561)
Net increase (decrease) in cash and cash equivalents and restricted cash and escrow deposits	113,015	(156,531)
Cash and cash equivalents and restricted cash and escrow deposits at beginning of period	282,546	277,322
Cash and cash equivalents and restricted cash and escrow deposits at end of period	$395,561	$120,791

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 the leading 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 independent living, assisted living and dementia-care communities and continuing care retirement centers ("CCRCs"). Through its ancillary services programs, 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 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 ("US GAAP") for interim financial information 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 necessary to present fairly the financial position, results of operations and cash flows of the Company as of March 31, 2018, and for all periods presented. The condensed consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles 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. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management's discussion and analysis of financial condition and results of operations, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 22, 2018.

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 significant intercompany balances and transactions have been eliminated. Investments in affiliated companies that the Company does not control, but has the ability to exercise significant influence over governance and operation, 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.

The Company continually evaluates its potential variable interest entity ("VIE") relationships under certain criteria as provided for in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation ("ASC 810"). ASC 810 broadly defines a VIE as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. The Company performs this analysis on an ongoing basis and consolidates any VIEs for which the Company is determined to be the primary beneficiary, as determined by the Company's power to direct the VIE's activities and the obligation to absorb its losses or the right to receive its benefits, which are potentially significant to the VIE. Refer to Note 14 for more information about the Company's VIE relationships.

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 term of 30 days to one year, the Company provides senior living services to residents for a stated daily or monthly fee. The Company recognizes revenue for housing services under residency agreements for independent living and assisted living services in accordance with the provisions of ASC Topic 840, Leases ("ASC 840"). The Company recognizes revenue for assisted living care, skilled nursing residency and inpatient therapy services, ancillary services, and personalized health services in accordance with the provisions of ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). The Company has determined that the senior living services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time.

Through its ancillary services programs, the Company enters into contracts to provide home health, hospice, and outpatient therapy services. The Company recognizes revenue for home health, hospice, and outpatient therapy services in accordance with the provisions of ASC 606. Each service provided under the contract is capable of being distinct, and thus, the services are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services are provided.

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

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 to the owners of the communities. 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 of income to recognize for all real estate sales.

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

Stock-Based Compensation

The Company follows ASC 718, Compensation – Stock Compensation ("ASC 718") in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date are recognized when incurred.

Certain of the Company's employee stock awards vest only upon the achievement of performance targets. ASC 718 requires recognition of compensation cost only when achievement of performance conditions is considered probable. Consequently, the Company's determination of the amount of stock compensation expense requires judgment in estimating the probability of achievement of these performance targets.

For all share-based awards with graded or cliff vesting other than awards with performance-based vesting conditions, the Company records compensation expense for the entire award on a straight-line basis (or, if applicable, on the accelerated method) over the requisite service period. For graded-vesting awards with performance-based vesting conditions, total compensation expense is recognized over the requisite service period for each separately vesting tranche of the award as if the award is, in substance, multiple awards once the performance target is deemed probable of achievement. Performance goals are evaluated quarterly. If such goals are not ultimately met or it is not probable the goals will be achieved, no compensation expense is recognized and any previously recognized compensation expense is reversed.

Income Taxes

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

Fair Value of Financial Instruments

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

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Marketable Securities

Investments in commercial paper and corporate bond instruments with original maturities of greater than three months are classified as marketable securities.

Goodwill and Intangible Assets

The Company follows ASC 350, Goodwill and Other Intangible Assets, and tests goodwill for impairment annually during the fourth quarter or whenever indicators of impairment arise. Factors the Company considers important in its analysis of whether an indicator of impairment exists include a significant decline in the Company's stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The Company is not required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value of a reporting unit is less than its carrying value. The fair values used in the quantitative goodwill impairment test are estimated 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. If the quantitative goodwill impairment test results in a reporting unit's carrying value exceeding its estimated fair value, an impairment charge will be recorded based on the difference in accordance with ASU 2017-04, Intangibles - Goodwill and Other, with the impairment charge limited to the amount of goodwill allocated to the reporting unit.

Acquired intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and all intangible assets are reviewed for impairment if indicators of impairment arise. The evaluation of impairment for definite-lived intangibles is based upon a comparison of the carrying value of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying value of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

Indefinite-lived intangible assets are not amortized but are tested for impairment annually during the fourth quarter or more frequently as required. The impairment test consists of a comparison of the estimated fair value of the indefinite-lived intangible asset with its carrying value. If the carrying value exceeds its fair value, an impairment loss is recognized for that difference.

Amortization of the Company's definite-lived intangible assets is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Asset Category	Estimated Useful Life (in years)
Trade names	2 – 5
Other	3 – 9

Self-Insurance Liability Accruals

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

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

During the three months ended March 31, 2018 and 2017, the Company reduced its estimate for the amount of expected losses for general liability and professional liability and workers compensation claims, based on recent historical claims experience. The reduction in these accrued reserves decreased facility operating expense by $1.2 million and $3.7 million for the three months ended March 31, 2018 and 2017, respectively.

Lease Accounting

The Company, as lessee, makes a determination with respect to each of its community leases as to whether each should be accounted for as an operating lease or capital lease. The classification criteria is based on estimates regarding the fair value of the leased community, minimum lease payments, effective cost of funds, the economic life of the community and certain other terms in the lease agreements. In a business combination, the Company assumes the lease classification previously determined by the prior lessee absent a modification, as determined by ASC 840, Leases ("ASC 840"), in the assumed lease agreement. Payments made under operating leases are accounted for in the Company's condensed consolidated statements of operations as lease expense for actual rent paid plus or minus a straight-line adjustment for estimated minimum lease escalators and amortization of deferred gains in situations where sale-leaseback transactions have occurred.

For capital and financing lease obligation arrangements, a liability is established on the Company's condensed consolidated balance sheet representing the present value of the future minimum lease payments and a residual value for financing leases and a corresponding long-term asset is recorded in property, plant and equipment and leasehold intangibles in the condensed consolidated balance sheet. For capital lease assets, the asset is depreciated over the remaining lease term unless there is a bargain purchase option in which case the asset is depreciated over the useful life. For financing lease assets, the asset is depreciated over the useful life of the asset. Leasehold improvements purchased during the term of the lease are amortized over the shorter of their economic life or the lease term.

All of the Company's leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease. In addition, all rent-free or rent holiday periods are recognized in lease expense on a straight-line basis over the lease term, including the rent holiday period.

Sale-leaseback accounting is applied to transactions in which an owned community is sold and leased back from the buyer if certain continuing involvement criteria are met. Under sale-leaseback accounting, the Company removes the community and related liabilities from the condensed consolidated balance sheet. Gain on the sale is deferred and recognized as a reduction of facility lease expense for operating leases and a reduction of interest expense for capital leases. In cases of sale-leaseback transactions in which the Company has continuing involvement, other than normal leasing activities, the Company does not record the sale until such involvement terminates.

For leases in which the Company is involved with the construction of a building, the Company accounts for the leases during the construction period under the provisions of ASC 840. If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and therefore is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction in progress. Once construction is complete, the Company considers the requirements under ASC Subtopic 840-40. If the arrangement qualifies for sale-leaseback accounting, the Company removes the assets and related liabilities from the condensed consolidated balance sheet. If the arrangement does not qualify for sale-leaseback accounting, the Company continues to amortize the financing obligation and depreciate the assets over the lease term.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-01, Business Combinations: Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business to assist companies in determining whether transactions should be accounted for as an asset acquisition or a business combination. Under ASU 2017-01, if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business and the transaction is accounted for as an asset acquisition. Transaction costs associated with asset acquisitions are capitalized while those associated with business combinations are expensed as incurred. The Company adopted ASU 2017-01 on a prospective basis on January 1, 2018. The Company anticipates that the changes to the definition of a business may result in future acquisitions of real estate, communities or senior housing operating companies being accounted for as asset acquisitions.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, a consensus of the FASB Emerging Issues Task Force ("ASU 2016-18"). ASU 2016-18 intends to address the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The

Company adopted ASU 2016-18 on January 1, 2018 and the changes required by ASU 2016-18 were applied retrospectively to all periods presented. The Company has identified that the inclusion of the change in cash and escrow deposits restricted within the retrospective presentation of the statements of cash flows resulted in a $0.6 million decrease to the amount of net cash used in investing activities for the three months ended March 31, 2017.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 clarifies how cash receipts and cash payments in certain transactions are presented in the statement of cash flows. Among other clarifications on the classification of certain transactions within the statement of cash flows, the amendments in ASU 2016-15 provide that debt prepayment and debt extinguishment costs will be classified within financing activities within the statement of cash flows. ASU 2016-15 is effective for the Company for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted ASU 2016-15 on January 1, 2018 and the changes in classification within the statement of cash flows were applied retrospectively to all periods presented. The Company's retrospective application resulted in an immaterial increase to the amount of net cash provided by operating activities and an immaterial decrease to the amount of net cash used in financing activities for the three months ended March 31, 2017.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The five step model defined by ASU 2014-09 requires the Company to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when each performance obligation is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced disclosure of revenue arrangements. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Company's fiscal year beginning January 1, 2018, and the Company adopted the new standard under the modified retrospective approach. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning retained earnings. The Company has determined that the adoption of ASU 2014-09 did not result in an adjustment to retained earnings as of January 1, 2018.

The Company has determined that there will be a change to the amounts of resident fee revenue and facility operating expense with no net impact to the amount of income from operations, for the impact of implicit price concessions on the estimation of the transaction price. The Company recognized $906.3 million of resident fee revenue and $632.3 million of facility operating expense for the three months ended March 31, 2018. The impact to resident fee revenue and facility operating expenses as a result of applying ASC 606 was a decrease of $1.1 million for the three months ended March 31, 2018.

The Company has determined that there will not be any significant change to the annual amount of revenue recognized for management fees under the Company’s community management agreements, however, the Company will recognize an estimated amount of incentive fee revenue earlier during the annual contract period. The Company has determined that there will be a change to the amounts presented for revenue recognized for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities with no net impact to the amount of income from operations, as a result of the combination of all community operations management activities as a single performance obligation for each contract. The Company recognized $262.3 million of revenue for reimbursed costs incurred on behalf of managed communities and $262.3 million of reimbursed costs incurred on behalf of managed communities for the three months ended March 31, 2018 in accordance with ASU 2014-09. The impact to revenue for reimbursed costs incurred on behalf of managed communities and reimbursed costs incurred on behalf of managed communities as a result of applying ASC 606 was an increase of $12.4 million for the three months ended March 31, 2018.

Additionally, real estate sales are within the scope of ASU 2014-09, as amended by ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets ("ASU 2017-05"). ASU 2017-05 clarifies the scope of subtopic 610-20 and adds guidance for partial sales of nonfinancial assets. Under ASU 2014-09 and ASU 2017-05, the income recognition for real estate sales is largely based on the transfer of control versus continuing involvement under the former guidance. As a result, more transactions may qualify as sales of real estate and gains or losses may be recognized sooner. The Company adopted ASU 2014-09, as amended by ASU 2017-5, under the modified retrospective approach as of January 1, 2018 and will apply the five step revenue model to all subsequent sales of real estate.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its condensed consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. Additionally, ASU 2016-02 makes targeted changes to lessor accounting and requires enhanced disclosure of lease arrangements. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and early adoption is permitted. For the three months ended March 31, 2018, the Company made cash lease payments of $89.6 million for long-term community leases accounted for as operating leases under ASC 840. The Company anticipates that the adoption of ASU 2016-02 will result in the recognition of material lease liabilities and right-of use assets on the condensed consolidated balance sheet for these community operating leases. The Company is monitoring recent accounting standard setting activities of the FASB and the

Company continues to evaluate the impact that the adoption of ASU 2016-02 will have on its condensed consolidated financial statements and disclosures.

Reclassifications

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.

3. Earnings Per Share

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

During the three months ended March 31, 2018 and 2017, 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 7.0 million and 5.2 million for the three months ended March 31, 2018 and 2017, respectively.

The calculation of diluted weighted average shares excludes the impact of conversion of the outstanding principal amount of $316.3 million of the Company's 2.75% convertible senior notes due June 15, 2018. As of March 31, 2018 and 2017, the maximum number of shares issuable upon conversion of the notes is approximately 13.8 million (after giving effect to additional make-whole shares issuable upon conversion in connection with the occurrence of certain events); however it is the Company's current intent and policy to settle the principal amount of the notes in cash upon conversion. The maximum number of shares issuable upon conversion of the notes in excess of the amount of principal that would be settled in cash is approximately 3.0 million. In addition, the calculation of diluted weighted average shares excludes the impact of the exercise of warrants to acquire the Company's common stock. As of March 31, 2018 and 2017, the number of shares issuable upon exercise of the warrants was approximately 10.8 million.

4. Acquisitions, Dispositions and Other Significant Transactions

The Company completed sales of six communities and termination of leases on 105 communities during the period from January 1, 2017 through March 31, 2018. The Company's condensed consolidated financial statements include resident fee revenue of $2.2 million and $107.6 million and facility operating expenses of $2.1 million and $81.0 million for the communities for the three months ended March 31, 2018 and 2017, respectively, and cash lease payments of $27.8 million for the three months ended March 31, 2017. The results of operations of the 111 communities were reported in the following segments within the condensed consolidated financial statements prior to their disposition dates: Assisted Living (88 communities), Retirement Centers (ten communities) and CCRCs-Rental (13 communities).

The closings of the various pending transactions and expected sales of assets described below are subject to the satisfaction of various 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.

HCP Master Lease Transaction and RIDEA Ventures Restructuring

On November 2, 2017, the Company announced that it had entered into a definitive agreement for a multi-part transaction with HCP, Inc. ("HCP"). As part of such transaction, the Company entered into an Amended and Restated Master Lease and Security Agreement (“Master Lease”) with HCP effective as of November 1, 2017. The components of the multi-part transaction include:

- Master Lease Transactions. The Company and HCP amended and restated triple-net leases covering substantially all of the communities the Company leased from HCP as of November 1, 2017 into the Master Lease. Pursuant to the agreements, following March 31, 2018, the Company acquired two communities for an aggregate purchase price of $35.4 million and leases with respect to four communities were terminated, and at the closings such communities were removed from the Master Lease. Pursuant to the Master Lease, 29 additional communities will be removed from the Master Lease on or before November 1, 2018. However, if HCP has not transitioned operations and/or management of such communities to a third party prior to such date, the Company will continue to operate the foregoing 29 communities on an interim basis and such communities will, from and after such time, be reported in the Management Services segment. In addition to the foregoing 35 communities, the Company continues to lease 43 communities pursuant to the terms of the Master Lease, which have the same lease rates and expiration and renewal terms as the applicable prior instruments, except that effective January 1, 2018, the Company received a $2.5 million annual rent reduction for two communities. The Master Lease also provides that the Company may engage in certain change in control and other transactions without the need to obtain HCP's consent, subject to the satisfaction of certain conditions.

- RIDEA Ventures Restructuring. Pursuant to the multi-part transaction agreement, HCP acquired the Company's 10% ownership interest in one of the Company's RIDEA ventures with HCP in December 2017 for $32.1 million (for which the Company recognized a $7.2 million gain on sale) and the Company's 10% ownership interest in the remaining RIDEA venture with HCP in March 2018 for $62.3 million (for which the Company recognized a $42.3 million gain on sale). The Company provided management services to 59 communities on behalf of the two RIDEA ventures as of November 1, 2017. Pursuant to the multi-part transaction agreement, the Company acquired one community for an aggregate purchase price of $32.1 million in January 2018 and three communities for an aggregate purchase price of $207.4 million during April 2018 and retained management of 18 of such communities. The amended and restated management agreements for such 18 communities have a term set to expire in 2030, subject to certain early termination rights. In addition, HCP will be entitled to sell or transition operations and/or management of 37 of such communities. Management agreements for ten such communities were terminated by HCP during the three months ended March 31, 2018 (for which the Company recognized a $2.2 million non-cash management contract termination gain), and the Company expects the termination of management agreements on the remaining 27 communities to occur in stages throughout 2018.

The Company financed the foregoing community acquisitions with non-recourse mortgage financing and proceeds from the sales of its ownership interest in the unconsolidated ventures. See Note 9 to the condensed consolidated financial statements for more information regarding the non-recourse mortgage financing.

In addition, the Company obtained future annual cash rent reductions and waived management termination fees in the multi-part transaction. As a result, the Company reduced its lease liabilities by $9.7 million for the future annual cash rent reductions and recognized a $9.7 million deferred liability for the consideration received from HCP in advance of the termination of the management agreements for the 37 communities.

As a result of the modification of the remaining lease term for communities subject to capital leases, the Company reduced the carrying value of capital lease obligations and assets under capital leases by $145.6 million in 2017. The transactions related to the terminations of the leases for 33 communities in 2018 for accounting purposes are anticipated to result in the Company recording a gain in fiscal 2018 for the amount by which the carrying value of the operating and capital and financing lease obligations for the 33 communities exceed the carrying value of the Company's assets and liabilities under operating and capital and financing leases at the lease termination date. As of March 31, 2018, the $389.4 million carrying value of the lease obligations for the 33 communities exceed the $341.4 million carrying value of the assets under operating and capital and financing leases by approximately $48.0 million, primarily for 20 communities which were previously subject to sale-leaseback transactions in which the Company was deemed to have continuing involvement for accounting purposes.

The results of operations for the 33 communities that have been or will be disposed through lease terminations are reported within the following segments within the condensed consolidated financial statements: Retirement Centers (five communities), Assisted Living (27 communities), and CCRCs-Rental (one community). With respect to such 33 communities, the Company's condensed consolidated financial statements include resident fee revenue of $35.8 million and $37.3 million, facility operating expenses of $24.5 million and $22.9 million, and cash lease payments of $11.8 million and $12.0 million for the three months ended March 31, 2018 and 2017, respectively. For the 27 managed communities for which the Company's management may be terminated, the Company's condensed consolidated financial statements include management fees of $2.1 million for each of the three months ended March 31, 2018 and 2017.

Formation of Venture with Blackstone

On March 29, 2017, the Company and affiliates of Blackstone Real Estate Advisors VIII L.P. (collectively, "Blackstone") formed a venture (the “Blackstone Venture”) that acquired 64 senior housing communities for a purchase price of $1.1 billion. The Company had previously leased the 64 communities from HCP under long-term lease agreements with a remaining average lease term of approximately 12 years. At the closing, the Blackstone Venture purchased the 64-community portfolio from HCP subject to the existing leases, and the Company contributed its leasehold interests for 62 communities and a total of $179.2 million in cash to purchase a 15% equity interest in the Blackstone Venture, terminate leases, and fund its share of closing costs. As of the formation date, the Company continued to operate two of the communities under lease agreements and began managing 60 of the communities on behalf of the venture under a management agreement with the venture. The two remaining leases will be terminated, pending certain regulatory and other conditions, at which point the Company will manage the communities; however, there can be no assurance that the terminations will occur or, if they do, when the actual terminations will occur. Two of the communities are managed by a third party for the venture.

The results and financial position of the 62 communities for which leases were terminated were deconsolidated from the Company prospectively upon formation of the Blackstone Venture. The Company's interest in the venture is accounted for under the equity method of accounting. Under the terms of the venture agreement, the Company may be entitled to distributions which are less than or in excess of the Company's 15% equity interest based upon specified performance criteria.

Initially, the Company determined that the contributed carrying value of the Company's investment was $66.8 million, representing the amount by which the $179.2 million cash contribution exceeded the carrying value of the Company's liabilities under operating, capital and financing leases contributed by the Company net of the carrying value of the assets under such operating, capital and financing leases. However, the Company estimated the fair value of its 15% equity interest in the Blackstone Venture at inception to be $47.1 million. As a result, the Company recorded a $19.7 million charge within asset impairment expense for the three months ended March 31, 2017 for the amount of the contributed carrying value in excess of the estimated fair value of the Company's investment.

Additionally, these transactions related to the Blackstone Venture required the Company to record a significant increase to the Company's existing tax valuation allowance, after considering the change in the Company's future reversal of estimated timing differences resulting from these transactions, primarily due to removing the deferred positions related to the contributed leases. During the three months ended March, 31, 2017, the Company recorded a provision for income taxes to establish an additional $85.0 million of valuation allowance against its federal and state net operating loss carryforwards and tax credits as the Company anticipates these carryforwards and credits will not be utilized prior to expiration. See Note 13 for more information about the Company's deferred income taxes.

Dispositions of Owned Communities during 2018 and Assets Held for Sale

The Company began 2018 with 15 of its owned communities classified as held for sale as of December 31, 2017. During the three months ended March 31, 2018, the Company completed the sale of three communities, two of which were not previously included in assets held for sale, for net cash proceeds of $12.8 million and recognized a net gain on sale of assets of $1.9 million.

As of March 31, 2018, 14 communities were classified as held for sale, resulting in $88.5 million being recorded as assets held for sale and $30.0 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 will either be repaid with the proceeds from the sales or be assumed by the prospective purchasers. The results of operations of the 14 communities are reported in the following segments within the condensed consolidated financial statements: Assisted Living (12 communities) and CCRCs-Rental (two communities). The 14 communities had resident fee revenue of $9.1 million and $9.5 million and facility operating expenses of $8.0 million and $7.7 million for the three months ended March 31, 2018 and 2017, respectively.

Dispositions of Owned Communities and Other Lease Terminations during 2017

During the year ended December 31, 2017, the Company completed the sale of three communities for net cash proceeds of $8.2 million, and the Company terminated leases for 43 communities otherwise than in connection with the transactions with HCP and Blackstone described above (including terminations of leases for 26 communities pursuant to the transactions with HCP announced in November 2016).

5. Fair Value Measurements

Marketable Securities

As of March 31, 2018, marketable securities of $174.6 million are stated at fair value based on valuations provided by third-party pricing services and are classified within Level 2 of the valuation hierarchy. The Company recognized gains of $0.6 million for marketable securities within interest income on the Company's condensed consolidated statements of operations for the three months ended March 31, 2018.

Debt

The Company estimates the fair value of its debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt (excluding capital and financing lease obligations) with a carrying value of approximately $3.9 billion as of March 31, 2018 and December 31, 2017. Fair value of the debt approximates carrying value in all periods. The Company's fair value of debt disclosure is classified within Level 2 of the valuation hierarchy.

Goodwill and Asset Impairment Expense

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

	Three Months Ended March 31,	
(in millions)	2018	2017
Goodwill	$351.7	$—
Property, plant and equipment and leasehold intangibles, net	40.8	1.0
Investment in unconsolidated ventures	33.4	19.7
Other intangible assets, net	1.7	—
Assets held for sale	2.8	—
Goodwill and asset impairment	$430.4	$20.7

Goodwill

The Company follows ASC 350, Goodwill and Other Intangible Assets, and tests goodwill for impairment annually during the fourth quarter or whenever indicators of impairment arise. Factors the Company considers important in its analysis of whether an indicator of impairment exists include a significant decline in the Company's stock price or market capitalization for a sustained period since the last testing date, significant underperformance relative to historical or projected future operating results and significant negative industry or economic trends. The Company first assesses qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned with the reporting unit's carrying value. The Company is not required to calculate the fair value of a reporting unit unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value of a reporting unit is less than its carrying value. The fair values used in the quantitative goodwill impairment test are estimated based upon discounted future cash flow projections for the reporting unit. These cash flow projections are based upon a number of estimates and assumptions such as revenue and expense growth rates, capitalization rates and discount rates. The Company also considers market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units. If the quantitative goodwill impairment test results in a reporting unit's carrying value exceeding its estimated fair value, an impairment charge will be recorded based on the difference in accordance with ASU 2017-04, with the impairment charge limited to the amount of goodwill allocated to the reporting unit.

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.

In estimating the fair value of the reporting units for purposes of the quantitative goodwill impairment test, the Company utilized an income approach, which included future cash flow projections that are developed internally. Any estimates of future cash flow projections necessarily involve predicting unknown future circumstances and events and require significant management judgments and estimates. In arriving at the cash flow projections, the Company considered its historic operating results, approved budgets and business plans, future demographic factors, expected growth rates, and other factors. In using the income approach to estimate the fair value of reporting units for purposes of its goodwill impairment test, the Company made certain key assumptions. Those assumptions include future revenues, facility operating expenses, and cash flows, including sales proceeds that the Company would receive upon a sale of the communities using estimated capitalization rates, all of which are considered Level 3 inputs in accordance with ASC 820. The Company corroborated the estimated capitalization rates used in these calculations with capitalization rates observable from recent market transactions. Future cash flows are discounted at a rate that is consistent with a weighted average cost of capital from a market participant perspective. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. The Company also considered market based measures such as earnings multiples in its analysis of estimated fair values of its reporting units.

Based on the results of the Company's quantitative goodwill impairment test, the Company determined that the carrying value of the Company's Assisted Living reporting unit exceeded its estimated fair value by more than the $351.7 million carrying value of goodwill as of March 31, 2018. As a result, the Company recorded a non-cash impairment charge of $351.7 million to goodwill within the Assisted Living operating segment for the three months ended March 31, 2018. Based on the results of the Company's quantitative goodwill impairment test, the Company determined that the estimated fair value of both the Company's Retirement Centers and Brookdale Ancillary Services reporting units exceeded their respective carrying values as of March 31, 2018.

Determining the fair value of the Company’s reporting units involves the use of significant estimates and assumptions, which the Company believes to be reasonable, that are unpredictable and inherently uncertain. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows and risk-adjusted discount rates. Future events may indicate differences from management's current judgments and estimates which could, in turn, result in future impairments. Future events that may result in impairment charges include increases in interest rates, which could impact capitalization and discount rates, differences in the projected occupancy rates and changes in the cost structure of existing communities. Significant adverse changes in the Company’s future revenues and/or operating margins, significant changes in the market for senior housing or the valuation of the real estate of senior living communities, as well as other events and circumstances, including but not limited to increased competition and changing economic or market conditions, including market control premiums, could result in changes in fair value and the determination that additional goodwill is impaired.

Property, Plant and Equipment and Leasehold Intangibles

During the three months ended March 31, 2018 and 2017, 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 $40.8 million and $1.0 million for the three months ended March 31, 2018 and 2017, respectively, primarily within the Assisted Living 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, and 2017, the Company recorded $33.4 million and $19.7 million, respectively, of non-cash impairment charges related to investments in unconsolidated ventures. These impairment charges reflect the amount by which the carrying values of the investments exceeded their estimated fair value. Refer to Note 4 for more information about the formation and impairment of the Blackstone Venture during 2017.

6. Stock-Based Compensation

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

(share amounts in thousands, except for per share amounts)	Shares	Weighted	Total
	Granted	Average	Value
		Grant	

		Date Fair Value	
Three months ended March 31, 2018	3,387	$ 9.10	$30,823

7. Goodwill and Other Intangible Assets, Net

The following is a summary of the carrying value of goodwill by operating segment.

(in thousands)	Retirement Centers	Assisted Living	Brookdale Ancillary Services	Total
Balance at January 1, 2018	$ 27,321	$351,652	$126,810	$505,783
Impairment	—	(351,652)	—	(351,652)
Balance at March 31, 2018	$ 27,321	$—	$126,810	$154,131

The following is a summary of other intangible assets.

	March 31, 2018		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	$4,738	$ —	$4,738
Health care licenses	49,250	—	49,250
Trade names	27,800	(24,361)	3,439
Management contracts	10,680	(7,448)	3,232
Total	$92,468	$ (31,809)	$60,659

	December 31, 2017		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net
Community purchase options	$9,533	$ —	$9,533
Health care licenses	50,927	—	50,927
Trade names	27,800	(23,714)	4,086
Management contracts	11,360	(7,929)	3,431
Total	$99,620	$ (31,643)	$67,977

Amortization expense related to definite-lived intangible assets for the three months ended March 31, 2018 and 2017 was $0.8 million and $0.9 million, respectively. Health care licenses were determined to be indefinite-lived intangible assets and are not subject to amortization. The community purchase options are not currently amortized, but will be added to the cost basis of the related communities if the option is exercised, and will then be depreciated over the estimated useful life of the community. Refer to Note 5 for information on impairment expense for goodwill.

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

As of March 31, 2018 and December 31, 2017, net property, plant and equipment and leasehold intangibles, which include assets under capital and financing leases, consisted of the following:

(in thousands)	March 31, 2018	December 31, 2017
Land	$452,677	$449,295
Buildings and improvements	4,941,781	4,923,621
Leasehold improvements	130,337	124,850
Furniture and equipment	1,035,909	1,006,889
Resident and leasehold operating intangibles	597,828	594,748
Construction in progress	55,747	74,678
Assets under capital and financing leases	1,738,167	1,742,384
	8,952,446	8,916,465
Accumulated depreciation and amortization	(3,176,950)	(3,064,320)
Property, plant and equipment and leasehold intangibles, net	$5,775,496	$5,852,145

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

For the three months ended March 31, 2018 and 2017, the Company recognized depreciation and amortization expense on its property, plant and equipment and leasehold intangibles of $113.4 million and $126.6 million, respectively.

9. Debt

Long-term Debt and Capital and Financing Lease Obligations

Long-term debt and capital and financing lease obligations consist of the following:

(in thousands)	March 31, 2018	December 31, 2017
Mortgage notes payable due 2018 through 2047; weighted average interest rate of 4.64% for the three months ended March 31, 2018, less debt discount and deferred financing costs of $17.1 million and $16.6 million as of March 31, 2018 and December 31, 2017, respectively (weighted average interest rate of 4.59% in 2017)	$3,482,476	$3,497,762
Capital and financing lease obligations payable through 2032; weighted average interest rate of 7.24% for the three months ended March 31, 2018 (weighted average interest rate of 6.75% in 2017)	1,257,085	1,271,554
Convertible notes payable in aggregate principal amount of $316.3 million, less debt discount and deferred financing costs of $2.6 million and $6.4 million as of March 31, 2018 and December 31, 2017, respectively, interest at 2.75% per annum, due June 15, 2018	313,626	309,853
Notes payable issued to finance insurance premiums, weighted average interest rate of 3.44% for the three months ended March 31, 2018	19,859	—
Other notes payable, weighted average interest rate of 5.95% for the three months ended March 31, 2018 (weighted average interest rate of 5.98% in 2017) and maturity dates ranging from 2020 to 2021	62,349	63,122
Total long-term debt and capital and financing lease obligations	5,135,395	5,142,291

Less current portion	605,006	602,501
Total long-term debt and capital and financing lease obligations, less current portion	$4,530,389	$4,539,790

As of March 31, 2018 and December 31, 2017, the current portion of long-term debt within the Company's condensed consolidated financial statements includes $30.0 million and $30.1 million, respectively, or mortgage notes payable secured by assets held for sale. This debt will be either assumed by the prospective purchasers or be repaid with the proceeds from the sales. Refer to Note 4 for more information about the Company's assets held for sale.

Credit Facilities

On December 19, 2014, the Company entered into a Fourth Amended and Restated Credit Agreement with General Electric Capital Corporation (which has since assigned its interest to Capital One Financial Corporation), as administrative agent, lender and swingline lender, and the other lenders from time to time parties thereto. The agreement currently provides for a total commitment amount of $400.0 million, comprised of a $400.0 million revolving credit facility (with a $50.0 million sublimit for letters of credit and a $50.0 million swingline feature to permit same day borrowing) and an option to increase the revolving credit facility by an additional $250.0 million, subject to obtaining commitments for the amount of such increase from acceptable lenders. The maturity date is January 3, 2020, and amounts drawn under the facility bear interest at 90-day LIBOR plus an applicable margin from a range of 2.50% to 3.50%. The applicable margin varies based on the percentage of the total commitment drawn, with a 2.50% margin at utilization equal to or lower than 35%, a 3.25% margin at utilization greater than 35% but less than or equal to 50%, and a 3.50% margin at utilization greater than 50%. The quarterly commitment fee on the unused portion of the facility is 0.25% per annum when the outstanding amount of obligations (including revolving credit, swingline and term loans and letter of credit obligations) is greater than or equal to 50% of the total commitment amount or 0.35% per annum when such outstanding amount is less than 50% of the total commitment amount.

Amounts drawn on the facility may be used to finance acquisitions, fund working capital and capital expenditures and for other general corporate purposes.

The facility is secured by a first priority mortgage on certain of the Company's communities. In addition, the agreement permits the Company to pledge the equity interests in subsidiaries that own other communities (rather than mortgaging such communities), provided that loan availability from pledged assets cannot exceed 10% of loan availability from mortgaged assets. The availability under the line will vary from time to time as it is based on borrowing base calculations related to the appraised value and performance of the communities securing the facility.

The agreement contains typical affirmative and negative covenants, including financial covenants with respect to minimum consolidated fixed charge coverage and minimum consolidated tangible net worth. A violation of any of these covenants could result in a default under the credit agreement, which would result in termination of all commitments under the agreement and all amounts owing under the agreement becoming immediately due and payable and/or could trigger cross default provisions in our other outstanding debt and lease agreements.

As of March 31, 2018, no borrowings were outstanding on the revolving credit facility and $41.8 million of letters of credit were outstanding under this credit facility. The Company also had separate unsecured letter of credit facilities of up to $66.2 million in the aggregate as of March 31, 2018. Letters of credit totaling $64.4 million had been issued under these separate facilities as of March 31, 2018.

2018 Financings

In April 2018, the Company obtained $247.6 million of debt secured by the non-recourse first mortgages on 11 communities. Sixty percent of the principal amount bears interest at a fixed rate of 4.55%, and the remaining forty percent of the principal amount bears interest at a variable rate equal to the 30-day LIBOR plus a margin of 189 basis points. The debt matures in May 2028. The $247.6 million of proceeds from the refinancing were primarily utilized to fund the acquisition of five communities from HCP and to repay $43.0 million of outstanding mortgage debt scheduled to mature in May 2018. See Note 4 to the condensed consolidated financial statements for more information regarding the acquisitions of communities from HCP.

Convertible Debt

In June 2011, the Company completed a registered offering of $316.3 million aggregate principal amount of 2.75% convertible senior notes due June 15, 2018 (the "Notes"). On and after March 15, 2018, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time. As of March 31, 2018, the Notes are convertible and none were converted during the three months ended March 31, 2018. As of March 31, 2018, the $313.6 million carrying value of the Notes was included in the current portion of long-term debt within the condensed consolidated balance sheet. It is the Company's current intent and policy to settle the principal amount of the Notes (or, if less, the amount of the conversion obligation) in cash upon conversion.

Financial Covenants

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

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

As of March 31, 2018, the Company is in compliance with the financial covenants of its outstanding debt and lease agreements.

10. 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 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 Act 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.

11. Supplemental Disclosure of Cash Flow Information

	Three Months Ended March 31,	
(in thousands)	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$62,721	$81,094
Income taxes paid, net of refunds	$(128)	$(107)
Additions to property, plant and equipment and leasehold intangibles, net:		
Property, plant and equipment and leasehold intangibles, net	$49,496	$43,830
Accounts payable	17,096	5,098
Net cash paid	$66,592	$48,928
Acquisition of assets, net of related payables:		
Property, plant and equipment and leasehold intangibles, net	$32,126	$—
Other intangible assets, net	(4,796)	—
Net cash paid	$27,330	$—
Proceeds from sale of assets, net:		
Prepaid expenses and other assets	$(579)	$(356)
Assets held for sale	(18,758)	(5,621)
Property, plant and equipment and leasehold intangibles, net	(978)	—
Investments in unconsolidated ventures	(20,084)	(26,301)
Refundable entrance fees and deferred revenue	8,345	—
Other liabilities	425	—
(Gain) loss on sale of assets, net	(43,431)	603
Net cash received	$(75,060)	$(31,675)
Formation of the Blackstone Venture:		
Prepaid expenses and other assets	$—	$(8,173)
Property, plant and equipment and leasehold intangibles, net	—	(768,897)
Investments in unconsolidated ventures	—	66,816
Capital and financing lease obligations	—	879,959
Deferred liabilities	—	7,504
Other liabilities	—	1,998
Net cash paid	$—	$179,207
Supplemental Schedule of Non-cash Operating, Investing and Financing Activities:		
Assets designated as held for sale:		
Prepaid expenses and other assets	$—	$106
Assets held for sale	(3,336)	(14,122)
Property, plant and equipment and leasehold intangibles, net	3,336	14,016
Net	$—	$—

The following table provides a reconciliation of cash and cash equivalents and restricted cash and escrow deposits reported within the condensed consolidated statement of cash flows that sums to the total of the same such amounts shown in the condensed consolidated statement of cash flows.

	March 31, 2018	December 31, 2017
Reconciliation of cash and cash equivalents and restricted cash and escrow deposits:		
Cash and cash equivalents	$335,412	$ 222,647
Cash and escrow deposits – restricted	32,393	37,189
Long-term cash and escrow deposits – restricted	27,756	22,710
Total cash and cash equivalents and restricted cash and escrow deposits shown in the condensed consolidated statement of cash flows	$395,561	$ 282,546

12. Facility Operating Leases

As of March 31, 2018, the Company operated 434 communities under long-term leases (290 operating leases and 144 capital and financing leases). The substantial majority of the Company's lease arrangements are structured as master leases. Under a master lease, numerous communities are leased through an indivisible lease. The Company typically guarantees the performance and lease payment obligations of its subsidiary leases 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 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 March 31, 2018, the Company is in compliance with the financial covenants of its long-term leases.

A summary of facility lease expense and the impact of straight-line adjustment and amortization of (above) below market rents and deferred gains are as follows:

	Three Months Ended March 31,	
(in thousands)	2018	2017
Cash basis payment	$89,593	$94,604
Straight-line (income) expense	(6,165)	(3,007)
Amortization of (above) below market lease, net	(1,938)	(1,697)
Amortization of deferred gain	(1,090)	(1,093)
Facility lease expense	$80,400	$88,807

13. Income Taxes

The difference between the statutory tax rate and the Company's effective tax rates for the three months ended March 31, 2018 and March 31, 2017 reflects a decrease in the Company’s federal statutory tax rate from 35% to 21% as a result of the Tax Act and a decrease in the valuation allowance recorded in 2018 as compared to 2017. These decreases were offset by the elimination of deductibility for qualified performance-based compensation of covered employees in 2018 as a result of the Tax Act, the negative tax benefit on the vesting of restricted stock, a direct result of the Company's lower stock price in 2018, and the non-deductible write-off of goodwill.

The valuation allowance during the three months ended March 31, 2018 reflects an additional allowance of $24.6 million established against the current period operating loss and is reflective of the Company's quarterly calculation of the reversal of existing tax assets and liabilities and the impact of the Company's acquisitions, dispositions, and other significant transactions, including the impact of the Tax Act which allows for the unlimited carryover of net operating losses created in 2018 and beyond.

The increase in the valuation allowance during the three months ended March 31, 2017 was comprised of multiple components. The increase included $85.0 million related to the removal of future timing differences as a result of the formation of the Blackstone Venture and termination of leases associated therewith. In addition, the Company increased its valuation allowance by $48.5 million upon the adoption of ASU 2016-09. The $48.5 million offset the increase to the Company's net operating loss carryforward position previously reflected in an additional paid-in capital pool, and accordingly, did not impact the current period income tax position. The remaining change of approximately $11.8 million for the three months ended March 31, 2017 reflects the allowance established against the current period operating loss.

The Company recorded an aggregate deferred federal, state and local tax benefit of $9.5 million as a result of the operating loss for the three months ended March 31, 2018, which was offset by an increase in the valuation allowance of $24.6 million. The excess of the increase in the valuation allowance over the deferred federal, state and local benefit for the three months ended March 31, 2018 is the result of the anticipated reversal of future tax liabilities offset by future tax deductions. The Company recorded an aggregate deferred federal, state, and local tax benefit of $13.5 million as a result of the operating loss for the three months ended March 31, 2017, which was offset by an increase in the valuation allowance of $96.8 million.

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 March 31, 2018 and December 31, 2017 is $360.7 million and $336.1 million, respectively.

For the year ended December 31, 2017, the Company estimated the impact of the Tax Act on state income taxes reflected in its income tax benefit. Reasonable estimates for the Company’s state and local provision continue to be made based on the Company's analysis of tax reform. These provisional amounts have not been adjusted for the three months ended March 31, 2018 but may be adjusted in future periods during 2018 when additional information is obtained. In addition, the Tax Act limits the annual deductibility of a corporation's net interest expense unless it elects to be exempt from such deductibility limitation under the real property trade or business exception. The Company plans to elect the real property trade or business exception in 2018. As such, the Company will be required to apply the alternative depreciation system ("ADS") to all current and future residential real property and qualified improvement property assets. This change did not have a material effect for the three months ended March 31, 2018 but will impact future tax depreciation deductions and may impact the Company’s valuation allowance. The Company is unable to estimate the future impact of this change at this time. 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 months ended March 31, 2018 and March 31, 2017 which are included in income tax expense or benefit for the period. Tax returns for years 2013 through 2016 are subject to future examination by tax authorities. In addition, the net operating losses from prior years are subject to adjustment under examination.

14. Variable Interest Entities

As of March 31, 2018, the Company has equity interests in unconsolidated VIEs. The Company has determined that it does not have the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance and is not the primary beneficiary of these VIEs in accordance with ASC 810. The Company's interests in the VIEs are, therefore, accounted for under the equity method of accounting.

The Company holds a 51% equity interest, and HCP owns a 49% interest, in a venture that owns and operates entry fee CCRCs (the "CCRC Venture"). The CCRC Venture's opco has been identified as a VIE. The equity members of the CCRC Venture's opco share certain operating rights, and the Company acts as manager to the CCRC Venture opco. However, the Company does not consolidate this VIE because it does not have the ability to control the activities that most significantly impact this VIE's economic performance. The assets of the CCRC Venture opco primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable and cash and cash equivalents. The obligations of the CCRC Venture opco primarily consist of community lease obligations, mortgage debt, accounts payable, accrued expenses and refundable entrance fees.

The Company holds an equity ownership interest in each of the propco and opco of one venture ("RIDEA Venture") that operates senior housing communities in a RIDEA structure. As of March 31, 2018, the Company's equity ownership interest is 10% in the RIDEA Venture. The RIDEA Venture has been identified as a VIE. The equity members of the RIDEA Venture share certain operating rights, and the Company acts as manager to the opco of the RIDEA Venture. However, the Company does not consolidate the VIE because it does not have the ability to control the activities that most significantly impact the economic performance of the VIE. The assets of the RIDEA Venture primarily consist of the senior housing communities that the RIDEA Venture owns, resident fees receivable, and cash and cash equivalents. The obligations of the RIDEA Venture primarily consist of notes payable, accounts payable and accrued expenses.

The Company holds a 15% equity ownership interest in the Blackstone Venture. The Blackstone Venture has been identified as a VIE due to the Company lacking substantive participation rights in the management of the venture and the Company lacking kick-out rights over the managing member. The equity members of the Blackstone Venture share certain operating rights and the Company acts as manager to 60 communities owned by the Blackstone Venture. However, the Company does not consolidate this VIE because it does not have the ability to control the activities that most significantly impact the economic performance of the VIE. The assets of the Blackstone Venture primarily consist of senior housing communities, resident fees receivable and cash and cash equivalents. The obligations of the Blackstone Venture primarily consist of long-term mortgage debt, accounts payable and accrued expenses. As of March 31, 2018, the Company leases two communities from the Blackstone Venture with annual lease payments of approximately $2.6 million. Under the terms of the lease agreements, the Company may be required to purchase the two leased communities for an amount equal to the greater of the fair market value of the communities or $33.8 million if there is an event of default under the lease agreement.

The carrying value and classification of the related assets, liabilities and maximum exposure to loss as a result of the Company's involvement with these VIEs are summarized below as of March 31, 2018 (in millions):

VIE Type	Asset Type	Maximum Exposure to Loss	Carrying Value
CCRC Venture opco	Investment in unconsolidated ventures	$ 31.3	$ 31.3
RIDEA Venture	Investment in unconsolidated ventures	$ 20.6	$ 20.6

As of March 31, 2018, the Company is not required to provide financial support, through a liquidity arrangement or otherwise, to its unconsolidated VIEs.

15. 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 table below.

	Three Months Ended March 31, 2018				
(in thousands)	Retirement Centers	Assisted Living	CCRCs-Rental	Brookdale Ancillary Services	Total
Private pay	$157,507	$514,264	$ 70,721	$269	$742,761
Government reimbursement	890	18,016	23,706	92,627	135,239
Other third-party payor programs	—	—	10,642	17,624	28,266
Total resident fee revenue	$158,397	$532,280	$ 105,069	$110,520	$906,266

	Three Months Ended March 31, 2017				
(in thousands)	Retirement Centers	Assisted Living	CCRCs-Rental	Brookdale Ancillary Services	Total
Private pay					