



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
05/07/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

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|---|--|
| PRODUCER Marsh USA, Inc. 1301 5th Avenue, Suite 1900 Seattle, WA 98101 Attn: seattle.certrequest@marsh.com / FAX 212-948-4326 100863-CRIME-5M-13-14 | CONTACT NAME: APR 29 2014 PHONE (A/C, No. Ext): FAX (A/C, No): E-MAIL ADDRESS: |
| | INSURER(S) AFFORDING COVERAGE BRANCH INSURER A : National Union Fire Ins Co Pittsburgh PA NAIC # 19445 INSURER B : INSURER C : INSURER D : INSURER E : INSURER F : |

COVERAGES **CERTIFICATE NUMBER:** SEA-002473376-01 **REVISION NUMBER:** 5

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

| INSR LTR | TYPE OF INSURANCE | ADDL INSR | SUBR WVD | POLICY NUMBER | POLICY EFF (MM/DD/YYYY) | POLICY EXP (MM/DD/YYYY) | LIMITS |
|----------|--|-----------|----------|---------------|-------------------------|-------------------------|--|
| | GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC | | | | | | EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$ |
| | AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS | | | | | | COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ |
| | UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$ | | | | | | EACH OCCURRENCE \$ AGGREGATE \$ |
| | WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below | | | | | | <input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$ |
| A | CRIME | | | 01-581-68-07 | 11/01/2013 | 11/01/2014 | LIMIT 5,000,000 DEDUCTIBLE 50,000 |

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

| | |
|---|--|
| CERTIFICATE HOLDER ALLISON NAKATOMI CDSS-CONTINUING CARE CONTRACTS BRANCH 744 P STREET #MS8-390 SACRAMENTO, CA 95814 | CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh USA Inc. Marc Shemesh <i>Marc Shemesh</i> |
|---|--|

RECEIVED
APR 29 2014
CONTINUING CARE
CONTRACTS BRANCH

Emeritus Corporation and EmeriCare Inc
State of California Continuing Care Retirement Communities
Certification by Emeritus' Senior Vice President Financial Services

April 24, 2014

I hereby certify to the best of my knowledge and belief that:

1. The information included within this annual report is correct.
2. Each continuing care contract form now in use for new residents has been approved by the Department.
3. As of the date of this certification Emeritus and EmeriCare Inc are maintaining the required liquid reserve and refund reserve.



Jim L. Hanson

Senior Vice President Financial Services

Title

4/24/14

Date

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

Commission file number 1-14012



EMERITUS CORPORATION

(Exact name of registrant as specified in its charter)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

WASHINGTON

(State or other jurisdiction of
incorporation or organization)

91-1605464

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

3131 Elliott Avenue, Suite 500, Seattle, WA 98121

(Address of principal executive offices)

(206) 298-2909

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

Common Stock, \$0.0001 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the Registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Aggregate market value of common voting stock held by non-affiliates of the registrant as of June 30, 2013 was \$954,043,784.

As of January 31, 2014, 48,571,423 shares of the Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The information required to be reported in Part III of this Annual Report on Form 10-K will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The disclosure and analysis in this Annual Report on Form 10-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. They often include words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “predict,” “seek,” “should,” “will,” or the negative of those terms, or comparable terminology. Forward-looking statements include, but are not limited to, statements about the pending merger transaction with Brookdale Senior Living, Inc. and the anticipated closing thereof, future financial and operating results, our plans, expectations and intentions, the impact or expected outcome of pending legal proceedings and other similar statements. These forward-looking statements are all based on our views and assumptions as of the time the statements are made and on currently available information, including but not limited to, operating, financial and competitive information, and are subject to various risks and uncertainties. Actual results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed under *Risk Factors* and *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in this Form 10-K.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. Incorrect assumptions we might make and known or unknown risks and uncertainties may affect the accuracy of our forward-looking statements. Forward-looking statements reflect our current expectations or forecasts of future events or results and are inherently uncertain. Accordingly, you should not place undue reliance on our forward-looking statements.

Although we believe that the expectations and forecasts reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. Consequently, no forward-looking statement can be guaranteed, and future events and actual or suggested results may differ materially. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any further disclosures we make in our quarterly reports on Form 10-Q and current reports on Form 8-K.

ITEM 1. BUSINESS

Unless the context otherwise requires, the terms “Emeritus,” the “Company,” “we,” “us,” and “our” refer to Emeritus Corporation and its consolidated subsidiaries.

Overview

Emeritus was founded in 1993 and is one of the largest and fastest-growing senior living service providers in the United States, focused on operating residential style communities. Our assisted living and Alzheimer’s and dementia care (“memory care”) communities provide a residential housing alternative for senior citizens who need help with the activities of daily living, with an emphasis on assisted living and personal care services. Many of our communities offer independent living alternatives and, to a lesser extent, skilled nursing care. We also offer a range of outpatient therapy and home health services in Florida, Arizona and Texas.

The Pending Merger

On February 20, 2014, Emeritus entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Brookdale Senior Living, Inc., a Delaware corporation (“Brookdale”), and Brookdale Merger Sub Corporation, a Delaware corporation and wholly owned subsidiary of Brookdale (“Merger Sub”). Pursuant to the terms, and subject to the conditions of the Merger Agreement, at the closing of the proposed transactions contemplated by the Merger Agreement, Merger Sub will be merged with and into Emeritus (the “Merger”), and Emeritus will continue as the surviving corporation of the Merger and as a wholly owned subsidiary of Brookdale.

The Merger Agreement was unanimously approved by the board of directors of each of Emeritus and Brookdale, and Emeritus has agreed to convene a special meeting of its shareholders to consider and vote upon the Merger Agreement and the Merger.

In connection with the Merger, each share of Emeritus common stock outstanding immediately prior to the effective time of the Merger (other than shares in respect of which dissenter’s rights are perfected and other than any shares owned by Brookdale or

its subsidiaries) will be automatically canceled and converted into the right to receive consideration equal to 0.95 of a share of Brookdale common stock (the “Exchange Ratio”). The Exchange Ratio is fixed and will not be adjusted for changes in the market value of Emeritus common stock or Brookdale common stock. No fractional shares of Brookdale common stock will be issued in the Merger, and Emeritus shareholders will receive cash in lieu of fractional shares, if any, of Brookdale common stock. Each share of Emeritus restricted stock outstanding immediately prior to the effective time of the Merger, whether or not then vested, will become fully vested and will be treated as a share of Emeritus common stock, to be cancelled and converted in the same way as all other outstanding shares of Emeritus common stock, as described above.

Each Emeritus stock option outstanding immediately prior to the effective time of the Merger will be canceled and automatically converted into the right of the holder to receive a number of whole shares of Brookdale common stock, determined by (i) multiplying (A) the total number of shares subject to the Emeritus stock option by (B) an amount equal to the “applicable closing price,” less the exercise price per share for such option, and (ii) dividing such amount by the ten-day volume weighted average closing price of Brookdale common stock (the “VWAP”). The number of shares of Brookdale common stock to be issued to the holder of the Emeritus stock option will be reduced to cover the minimum amount of any applicable tax withholdings. Any Emeritus stock option with an exercise price that is equal to or greater than the “applicable closing price” will terminate and cease to be outstanding, without any payment of consideration. The “applicable closing price” for purposes of the Merger Agreement is calculated by multiplying the VWAP by the Exchange Ratio.

The consummation of the Merger is subject to customary closing conditions, including, among others, (i) obtaining approval of the Emeritus shareholders holding a majority of the outstanding shares of Emeritus common stock and approval of the Brookdale shareholders holding a majority of the outstanding shares of Brookdale common stock, (ii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) absence of legal impediments preventing consummation of the Merger, (iv) the effectiveness under the Securities Act of 1933, as amended, of the Registration Statement on Form S-4 relating to the issuance of the shares of Brookdale common stock in the Merger, (v) approval by the New York Stock Exchange of the listing of the shares of Brookdale common stock to be issued in the Merger, (vi) the receipt of required regulatory approvals and lender consents, (vii) the delivery of opinions from counsel to each of Emeritus and Brookdale to the effect that the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and (viii) the absence of a material adverse effect with respect to Emeritus or Brookdale, as well as other conditions to closing as are customary in transactions such as the Merger.

Emeritus and Brookdale each made customary representations and warranties for a transaction of this type. The Merger Agreement also contains customary covenants, including covenants providing (i) that both parties shall use reasonable best efforts to cause the transactions to be consummated, (ii) both parties shall jointly prepare and file a joint proxy statement and call and hold a special meeting of shareholders for each of Emeritus and Brookdale, and (iii) that neither party will solicit proposals relating to certain alternative transactions or engage in discussions or negotiations in connection with alternative transactions, subject to certain exceptions including in order to comply with fiduciary duties and in the case of Brookdale, certain permitted transactions. The Merger Agreement also requires Emeritus to conduct its operations in the ordinary course during the interim period between execution of the Merger Agreement and the completion of the Merger and to refrain from taking specific actions without Brookdale’s prior written consent.

The Merger Agreement contains certain termination rights for both Emeritus and Brookdale, including, among other things, for the failure to consummate the Merger by November 20, 2014 (which date may be unilaterally extended by either party if certain closing conditions related to regulatory and third party approvals have not been satisfied), and for breaches of representations, warranties or covenants that result in the failure of certain conditions to closing being satisfied. In addition, in the event either Emeritus or Brookdale fails to obtain shareholder approval from their respective shareholders, the other party may terminate the Merger Agreement, upon which Emeritus or Brookdale, as applicable, will be required to pay the terminating party a termination payment of \$13.5 million. The Merger Agreement also provides that either Emeritus or Brookdale may terminate the Merger Agreement under specified circumstances, including, among others, a change in the recommendation of the terminating party’s board of directors or termination of the Merger Agreement to enter into a definitive agreement for a “superior proposal”; provided, however, that, in the case of Emeritus, Emeritus will be required to pay Brookdale a break-up fee of \$53.0 million, and in the case of Brookdale, Brookdale will be required to pay Emeritus a break-up fee of \$143.0 million.

Brookdale has agreed to take all action necessary to provide that its board of directors appoint one individual serving on the Emeritus board of directors to Brookdale’s board of directors at the closing of the merger (subject to the approval of such nominee by the Brookdale’s Nominating and Corporate Governance Committee). In connection with the foregoing, Emeritus anticipates that Granger Cobb, President and Chief Executive Officer and a director of Emeritus, will be joining Brookdale’s board of directors and will be serving as a consultant to Brookdale, in each case, following the closing of the Merger.

The foregoing description of the Merger Agreement is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the full text of the Merger Agreement, which will be included as an exhibit to Emeritus' Current Report on Form 8-K, which can be found in Emeritus' SEC filings at www.sec.gov. The foregoing information about the Merger Agreement and the actions and conditions contemplated thereby is stated as of the date on which this Form 10-K is filed. We undertake no obligation to correct or update any information after the date hereof.

Our Business

Emeritus is comprised of three operating segments and reporting units, which are: (i) ancillary services, including Nurse On Call, Inc. ("NOC"); (ii) the 133 communities acquired in the HCP Transaction (defined below); and (iii) the legacy Emeritus communities.

We strive to provide a wide variety of supportive living services in a professionally staffed environment that enables seniors to live with dignity and independence. Our holistic approach enhances every aspect of our residents' lives by assisting them with life enrichment activities including transportation, socialization and education, housing and 24-hour personal support services, such as medication management, bathing, dressing, personal hygiene and grooming. The average age of our residents is 85.

As of December 31, 2013, we operated 512 senior living communities in 45 states. The communities consisted of approximately 47,000 residential rooms or suites (collectively "units") with a resident capacity for approximately 54,000 residents. Our "Consolidated Portfolio" consists of owned and leased communities and our "Operated Portfolio" consists of our Consolidated Portfolio and the communities we manage for others. As of December 31, 2013, our Operated Portfolio consisted of the following:

| | Communities | Units ^(a) | Capacity ^(b) | Units by Type of Service | | | | |
|--------------------------|-------------|----------------------|-------------------------|--------------------------|-------------------|-------------------|-------------------|----------------------|
| | | | | AL ^(c) | MC ^(d) | IL ^(e) | SN ^(f) | Other ^(g) |
| Owned | 186 | 15,476 | 18,892 | 11,058 | 2,951 | 1,062 | 208 | 197 |
| Leased | 311 | 29,697 | 32,994 | 19,583 | 3,765 | 5,104 | 961 | 284 |
| Consolidated Portfolio | 497 | 45,173 | 51,886 | 30,641 | 6,716 | 6,166 | 1,169 | 481 |
| Managed | 12 | 1,301 | 1,434 | 782 | 226 | 247 | 25 | 21 |
| Managed - Joint Ventures | 3 | 198 | 310 | 122 | 76 | — | — | — |
| Operated Portfolio | 512 | 46,672 | 53,630 | 31,545 | 7,018 | 6,413 | 1,194 | 502 |

(a) Designed capacity units whether or not in use as a residential room or suite

(b) Maximum number of residents

(c) Assisted living

(d) Memory care

(e) Independent living

(f) Skilled nursing beds

(g) Units taken out of service

During 2013, we generated approximately 87.9% of our consolidated senior living community revenues and 80.4% of our community and ancillary services revenues from private payor sources, which limits our exposure to government reimbursement risk.

Our Consolidated Portfolio consists of high quality communities that offer a significant number of amenities to our residents and allow us to operate efficiently. To be competitive in all markets, we have significantly upgraded many of our older communities to enhance their appearance and functionality, making improvements to kitchens, emergency call systems, dining, lounge and recreation areas, landscaping, and electronic systems, including internet access and data transmission.

Our Operated Portfolio includes 309 communities that offer memory care services with approximately 7,000 units in a mix of both free-standing communities and as an attached wing of our senior living communities. Dementia is a loss of or decline in memory and other cognitive abilities. Alzheimer's disease is the most common type of dementia, accounting for 60 to 80

percent of cases and is a disease that is growing significantly in aging populations. Memory care residents typically have declines in certain mental functions that prevent them from performing activities of daily living, such as dressing and feeding themselves.

In November 2012, we entered the home healthcare business with our purchase of NOC. NOC is the largest Medicare-licensed home health agency in Florida. The NOC acquisition provides us with a large platform for expanding home health services into our existing senior living communities, and during 2013 we expanded these services into Arizona and Texas.

We focus on providing service of the highest quality and value to our residents. We also focus on maximizing our revenues, operating income, and cash flows through a combination of continuing initiatives:

- establish and maintain quality assurance and risk management programs to maintain customer satisfaction;
- increase occupancy;
- optimize revenue per unit;
- increase capacity and service offerings via selective acquisitions and expansions of existing communities;
- expand our memory care offerings to meet growing demand through expansions and conversions of existing communities and further acquisition of existing dementia care communities; and
- increase cost efficiencies through higher occupancy rates and greater economies of scale.

As we have executed these growth initiatives, we have consistently improved our revenues. Our Consolidated Portfolio occupancy has remained very stable through an extremely challenging economic period, demonstrating the needs-based nature of our business. During 2013, our initiatives produced the following results, which include the impacts of acquisitions:

- Total consolidated operating revenues increased by approximately \$392.5 million, or 25.0%, in 2013 to \$2.0 billion; and
- The number of communities in our Consolidated Portfolio increased by a net of 36 communities during 2013, which increased our consolidated unit count by approximately 4,185 units.

The Senior Living and Memory Care Industry

The senior living industry offers various types of settings across a continuum of care for the senior population. Our primary area of focus is assisted living, which provides a cost-effective and life-enriching alternative for seniors compared to other settings such as skilled nursing or home healthcare. We are one of a limited number of national operators of assisted living communities with a proven record of acquisition and development success across diverse geographic markets. The assisted living industry is highly fragmented and characterized by numerous local and regional operators. We believe that the industry will be the focus of increased consolidation activity in the years ahead and, as a result of our extensive acquisition experience, we are well-positioned to take advantage of consolidation opportunities.

We believe that the assisted living and memory care industry is the preferred residential alternative for seniors who cannot live independently due to physical or cognitive frailties, but who do not require the more intensive medical attention provided by a skilled nursing facility.

Assisted living provides housing and 24-hour personal support services designed to assist seniors with the activities of daily living, which include bathing, eating, personal hygiene, grooming, medication reminders, ambulating, and dressing. Certain of our assisted living communities offer higher levels of personal assistance for residents with Alzheimer's disease or other forms of dementia, in addition to our free-standing memory care communities.

We believe that our assisted living business, because it is needs-driven, has been relatively resistant to economic downturns and will continue to benefit from other trends and factors in the industry including growing consumer awareness of the types of services we provide and the increase in the number of seniors looking for care outside of their homes. Other trends and factors include:

Consumer Preference. We believe that assisted living is preferred by prospective residents as well as their families, who are often the decision makers for seniors. Assisted living is a cost-effective alternative to other types of care, offering seniors greater independence while enabling them to reside in a more residential environment.

Cost-Effectiveness. Assisted living services generally cost considerably less than skilled nursing services located in the same region. We believe that the cost of assisted living services compares favorably with home healthcare, particularly when costs

associated with housing, meals, and personal care assistance are taken into account. According to the most recent MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the national annual average cost of a year in a skilled nursing facility in 2012 was \$90,520 for a private room and \$81,030 for a semi-private room, compared to an annual average cost of \$42,600 in an assisted living community.

Demographics. Demographic trends are expected to increase the demand for the assisted living and memory care services in which we specialize. The target market for our services is persons 75 years and older, which represents one of the fastest growing segments of the population in the United States. The latest data from the United States Census Bureau predicts that the population in the United States will change in the next 17 years as follows:

| Age over: | 2013 | 2030 | Change | % Change |
|------------------|--------------|--------------|---------------|-----------------|
| 65 | 44.7 million | 72.8 million | 28.1 million | 62.8% |
| 75 | 19.5 million | 34.2 million | 14.7 million | 75.3% |
| 85 | 6.1 million | 9.0 million | 2.9 million | 47.5% |

The U.S. Census Bureau’s prediction for the next 37 years is as follows:

| Age over: | 2013 | 2050 | Change | % Change |
|------------------|--------------|--------------|---------------|-----------------|
| 65 | 44.7 million | 83.7 million | 39.0 million | 87.2% |
| 75 | 19.5 million | 46.2 million | 26.7 million | 136.9% |
| 85 | 6.1 million | 18.0 million | 11.9 million | 195.1% |

According to the 2013 Alzheimer’s Disease Facts and Figures report issued by the Alzheimer’s Association, an estimated 5.2 million Americans have Alzheimer’s disease, including approximately one in every nine Americans over age 65. By 2050, the number of people age 65 and older with Alzheimer’s disease may nearly triple, from 5.2 million to a projected 13.8 million, barring the development of medical breakthroughs to prevent, slow or stop the disease. In 2011, the first baby boomers turned 65, and by 2029, all baby boomers will be at least 65 years old. Absent breakthroughs in medical research, we believe the need for Alzheimer’s and dementia care will continue to increase in the future because of the steady growth in the senior population.

Changing Family Dynamics. The geographical separation of senior family members from their adult children correlates with the geographic mobility of the U.S. population. As a result, many families that may have otherwise provided care to senior family members in their homes are unable to do so. We believe that the number of seniors and their families who are able to afford high quality senior residential services, such as those we offer, has increased, despite recent weakness in the economy. While the economic downturn since 2008 may have had some impact on the financial resources of seniors and their families, we have not experienced any significant occupancy declines.

Supply/Demand Imbalance. We believe that high construction costs, limited availability of credit, and the cost of liability insurance for smaller operators have constrained the growth in the supply of assisted living communities. Although new construction of assisted living communities has increased recently, the industry continues to expect unit absorption to exceed new supply. We believe that growth in the senior population, increased affluence of this generation of senior citizens, baby boomers beginning to reach age 65 in 2011, and the decreasing role of the family in providing direct senior care has led, and will continue to lead, to demand in excess of supply.

Competitive Strengths

We believe that the following competitive strengths position us to capitalize on the favorable trends occurring within the healthcare industry and senior living markets.

Quality Care and Value. We focus on providing service of the highest quality and value to our residents.

Proven Consolidator in Fragmented Industry. The assisted living industry is highly fragmented with significant opportunities for consolidation. As of January 1, 2013, the top ten operators in the industry controlled just one-fourth of the estimated investment grade assisted living units.

In the last five years, we have increased our Consolidated and Operated Portfolios as follows:

| | December 31, 2013 | | December 31, 2008 | | Change in Community Count |
|--------------------------|-------------------|---------------------------|-------------------|------------|---------------------------|
| | Community Count | Unit Count ^(b) | Community Count | Unit Count | |
| Owned | 186 | 15,476 | 160 | 13,149 | 26 |
| Leased | 311 | 29,697 | 102 | 10,570 | 209 |
| Consolidated Portfolio | 497 | 45,173 | 262 | 23,719 | 235 |
| Managed | 12 | 1,301 | 14 | 1,479 | (2) |
| Managed - Joint Ventures | 3 | 198 | 24 | 1,818 | (21) |
| Operated Portfolio | 512 | 46,672 | 300 | 27,016 | 212 |

Significant Scale with Broad Geographic Footprint. We are the largest operator of assisted living and memory care communities in the United States. The scope and scale of our operations and the services we offer enable us to provide our residents with a comprehensive range of healthcare and related services in a cost-effective manner not available to smaller operators. Additionally, we believe our geographic diversification makes us less vulnerable to adverse economic developments and industry factors, such as overbuilding, employment, and regulatory and competitive conditions that may affect a particular region.

Scalable Oversight Systems and Information Technology Infrastructure. Our advanced oversight systems and information technology infrastructure further provide operational efficiencies, and the scalability of such systems and infrastructure facilitates further expansion.

Purpose-Built High-Quality Communities with Substantial Ownership. We have increased the number of communities that we own from 160 at the end of 2008 to 186 as of December 31, 2013, primarily through the acquisition of communities we formerly operated under long-term leases or management contracts.

Experienced Multidisciplinary Management with Industry Relationships. Our 19 senior management team members collectively have over 300 years of management experience in the healthcare industry, ranging from independent living to skilled nursing care facilities.

Successful Joint Venture Relationships. Our acquisitions of communities through joint ventures provide current cash flow as well as pathways to ownership of the communities. In 2006, we entered into a joint venture with an affiliate of Blackstone Real Estate Advisors (“Blackstone”), which we refer to as the “Blackstone JV.” The Blackstone JV owned 24 communities, which Emeritus managed for a fee. In addition to earning management fees, we recovered our original investment through cash equity distributions. Under the terms of the joint venture agreement, we were entitled to distributions in excess of our 19.0% ownership percentage based upon specified performance criteria (the “Promote Incentive”). In June 2011, we purchased Blackstone’s 81.0% equity interest in the Blackstone JV and added these communities to our Consolidated Portfolio. We earned a Promote Incentive of \$26.6 million, which was applied to the purchase price of our acquisition of Blackstone’s equity interest.

In 2010, we entered into a second joint venture (the “Sunwest JV”) with an affiliate of Blackstone, as well as Columbia Pacific, an entity controlled by Daniel R. Baty, a founder of Emeritus and our Chairman, and former investors in the properties. The Sunwest JV purchased 144 communities in 2010, of which 139 were included in our Operated Portfolio and we managed for a fee. We contributed \$21.0 million for our 6.0% ownership interest in the joint venture. Similar to the Blackstone JV, the agreement with the Sunwest JV provided Emeritus with the opportunity to earn a “promote incentive.” In the fourth quarter of 2012, we entered into agreements with the Sunwest JV and HCP, Inc. (“HCP”), whereby HCP agreed to purchase 133 communities from the Sunwest JV and simultaneously lease them to Emeritus (the “HCP Transaction”). As of December 31, 2012, HCP had closed on the purchase of 129 of these communities, and in the first quarter of 2013, HCP closed on the purchase of the remaining four communities. All 133 communities are now included in our Consolidated Portfolio.

Final distributions were made by the Sunwest JV in December 2013, and Emeritus received, in total, cash of approximately \$139.0 million, comprised of approximately \$45.0 million for the Company’s ownership interest in the Sunwest JV and a promote incentive payment of approximately \$94.0 million based on the final rate of investment return to the Sunwest JV’s investors.

For further information, see Note 4, *Acquisitions and Other Significant Transactions—2012 HCP Transaction* in Notes to Consolidated Financial Statements.

Business Strategy

Our business strategies include the following:

Continued Focus on Improving Customer Satisfaction. Our approach to care and our commitment and ability to address all of our residents' needs, ranging from their physical health to their social well-being, have helped drive operating improvements in our business. We believe that this "holistic approach" enriches the quality of life and care for our residents. By providing alternatives like non-related companion living, diabetes management, unique memory care programs, and other flexible programming designed to meet the needs of the individual in our communities, we increase customer satisfaction and thereby increase occupancy and enhance revenue. We believe that our ongoing focus on customer satisfaction, rates, and occupancy will generate the incremental growth in margins we are striving to achieve.

In the first quarter of 2013, we initiated *Family Connects*, a program we believe will facilitate a high level of customer service. This program connects our communities with our residents' families through regular communication by telephone, and will assist us in determining customer satisfaction. In late 2013, we engaged a third party to provide more frequent and detailed community-level customer satisfaction information to be used to further focus on our resident experience.

In 2013, we also implemented a centralized call center to improve new lead inquiry service and follow-up, thereby increasing conversions of inquiries into community tours and ultimately new residents. We believe that the call center will result in improved inquiry handling and provide us with more control over the message delivered to prospective residents and their families.

Focus on Appeal to the Middle Market. The market segment most attractive to us is middle to upper-middle income seniors aged 75 and older who live in smaller cities and suburbs. We believe that this segment of the senior community is relatively large and geographically broad and is generally composed of seniors who are financially capable of purchasing our services.

Expand Memory Care Markets. The demand for memory care services continues to grow. As of December 31, 2013, we operated approximately 6,700 units in our Consolidated Portfolio and 7,000 units in our Operated Portfolio that offer this type of care in a mix of both free-standing communities and as part of our standard assisted living communities. The dementia care wings within many of our assisted living communities enable us to serve residents who may require dementia care services in the future, and who would otherwise be required to move to an alternative care setting. Where appropriate, memory care residents and/or their families may choose to share "companion living" apartments for therapeutic reasons as well as to provide a lower cost alternative for those residents.

We will continue to explore new and existing markets where there is a significant demand for memory care services, including the addition of memory care units to existing communities. We believe our memory care programs, such as our signature *Join Their Journey*® and *Brain Health Lifestyle*® programs, are unique and appeal to this market segment. For example, our *Join Their Journey*® program focuses on care that creates a familiar environment with individualized service and care plans to enhance the residents' overall quality of life. Nationally recognized neuropsychologist Dr. Paul Nussbaum is our Director of Brain Health and facilitates our commitment to improving brain health in our residents, their families and our employees.

Selective Acquisitions and Developments. We will continue to pursue strategic opportunities to purchase, lease, or manage communities that will allow us to increase our capacity and improve our operating efficiencies, with a particular focus on acquiring local and regional operators of assisted living communities. In addition, we will selectively evaluate development opportunities, including adding units to existing communities and converting units to a higher service offering, in strong markets where our existing occupancy is high and rates are favorable.

Expand Our Ancillary Services. We plan to increase the scope of the ancillary services we offer to our residents, including rehabilitation services. While a majority of our communities currently offer rehabilitation services, these services are primarily outsourced to third-party providers. Entering the rehabilitation services market as a provider allows us to expand the rehabilitation services that we provide directly to our residents, resulting in increased revenues from these services, and potentially enable our residents to stay in our community homes longer. In November 2012, we acquired NOC, our home health services provider. NOC initially offered its services to residents in our existing Florida communities, expanding to provide services in Arizona and Texas in 2013. We plan to expand such services to other states in which we have a high concentration of communities. Home health services allow us to address a broader range of residents' overall care needs and realize revenues for these services that are currently being provided by third parties.

Develop Post-Acute Care Business. Various healthcare reform provisions became law upon enactment of the Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act, both enacted in 2010 (collectively, the “ACA”). The ACA significantly impacts Medicare reimbursement to hospitals because it expands the scope of accountability from hospital-based care to a continuum of care that includes pre-acute, inpatient acute, and post-acute care. The ACA transitions the Medicare provider payment system from pay-per-service to pay-per-episode, or “bundled” payments, making hospitals, physicians, and post-acute providers collectively responsible for the cost and quality of entire episodes of care. Beginning in October 2012, hospitals are penalized for 30-day readmissions related to certain conditions.

We believe that we are well positioned to be a leader in the post-acute transitional care continuum, due to our national footprint and provisions for all levels of post-acute care, and believe that this will result in increased demand for our services. Currently, we are focusing on transitional care awareness, building hospital partnerships and program development. We have entered into pilot partnerships focused on the delivery of hospital medical and related services and the provision of on-site physician services to our residents.

Resident Services

Our assisted living communities offer residents a full range of services based on individual resident needs in a supportive “home-like” environment. The services we provide to our residents are designed to respond to their individual needs and to improve their quality of life.

Basic Services. All of our residents receive basic services that include meals and snacks, social and recreational activities, weekly housekeeping and linen service, apartment maintenance, a 24-hour emergency response system, and transportation to appointments and excursions. We make licensed nurses available to evaluate the residents’ care needs and promote wellness.

Assisted Living Services. Our residents may purchase additional services based on the recommended level of care or assistance required for the activities of daily living (“ADLs”), which are dining, bathing, dressing, grooming, and personal hygiene. A thorough evaluation of each resident’s needs, in collaboration with the resident’s physician and family, determines the recommended level of care. In addition to assistance with ADLs, we also provide assistance with medication management, recreational activities and social support, behavior modification and management, and diabetes management, among other services.

Memory Care Program. We have designed our memory care program to meet the health, psychological, and social needs of our residents diagnosed with Alzheimer’s or related dementia. In a manner consistent with our assisted living services, we help structure a service plan for each resident based on his/her individual needs. Some of the key service areas providing individualized care to our residents with Alzheimer’s or related dementias center around a personalized environment, activities planned to support meaningful interactions, specialized dining and hydration programs, and partnerships with families and significant others through support groups, one-on-one meetings, educational forums, and understanding behavior as a form of communication. We endeavor to provide residents with an optimal quality of life, which includes life enrichment by giving each resident a sense of purpose.

Respite Care. Most of our communities offer short-stay respite care, whereby a resident may live with us temporarily while transitioning from a hospital or nursing home stay or when a family member or caregiver is on vacation. We also offer the opportunity for a prospective resident to stay with us for a short time before making a final decision to move in. Short-stay residents receive all of the same services as our permanent residents. For seniors living on their own or with family members, we offer adult day programs, which provide individual adult care plans that include recreational and social activities as well as meals.

Skilled Nursing. Our Consolidated Portfolio includes 1,169 licensed skilled nursing beds, which are included in some of our assisted living communities. In addition to assistance with ADLs, these communities provide 24-hour nursing care, rehabilitation therapy, post-surgical care, infusion therapy, dialysis care and hospice care, among other specialty services.

Home Healthcare. NOC provides services to individuals in their homes and in our communities for those who may be recovering from surgery, have an acute exacerbation of a chronic disability or terminal illness, or need assistance with ADLs. Registered nurses provide skilled nursing services such as cardiac care, chemotherapy, infusion therapy and wound care. Physical, speech, and occupational therapists provide therapy services in accordance with the doctor’s plan of care. Home health aides provide personal care such as hygiene, nutritional support and assistance with other ADLs, and

medical social workers address social and emotional issues related to the individual's health problems. We plan to continue to expand NOC's services to the residents of our senior living communities in select markets.

Personal Care Program. Through our Personal Care Program, we offer personal care and hygiene products such as diabetic supplies, incontinence and ostomy supplies, and other items to residents.

Service Revenue Sources

We rely primarily on our residents' ability to pay our charges for senior living services from their own or family resources and expect that we will continue to do so for the foreseeable future. Although care in an assisted living community is typically much less expensive than in a skilled nursing facility, we believe that only seniors with income or assets meeting or exceeding the regional median can afford to reside in our communities.

We rely primarily on Medicare to pay our charges for the home health services that NOC provides and expect that we will continue to do so for the foreseeable future.

As third-party reimbursement programs and other forms of payment continue to grow, we will evaluate and selectively participate in these alternative forms of payment depending on the level of reimbursement provided in relation to the level of care provided. We also believe that private long-term care insurance will increasingly become a revenue source in the future, although it is currently not significant. Our primary source of revenue comes from residents' private resources; all other service revenue sources constituted approximately 12.1% of our consolidated senior living community revenues and 19.6% of our total community and ancillary services revenues in 2013.

Management Activities

We provide management services to independent and related-party owners of assisted living communities, including our joint ventures. We managed 15 communities as of December 31, 2013 and 22 communities as of December 31, 2012, which included three Sunwest JV communities. Of the 15 managed communities, three are owned by joint ventures in which we have an interest and 12 are owned by third parties. Most of our management agreements provide for fees equal to 5.0% of community revenues and the terms range from two to five years and may be renewed or renegotiated at the expiration of the term.

Total management fees were approximately \$2.7 million for 2013, \$18.0 million for 2012 and \$21.1 million for 2011. The decrease in 2013 was the result of our acquisition of the Sunwest JV communities. For further discussion, see *Management's Discussion and Analysis of Operations and Financial Condition—Results of Operations*.

Marketing and Referral Relationships

Our operating strategy is designed to integrate our senior living communities into the continuum of healthcare services offered in the geographic markets in which we operate. One objective of this strategy is to enable residents who require additional healthcare services to benefit from our relationships with local hospitals, physicians, home healthcare agencies, and skilled nursing facilities in order to obtain the most appropriate level of care. Thus, we seek to establish relationships with local hospitals, through joint marketing efforts where appropriate, home healthcare agencies, alliances with visiting nurses associations and priority transfer agreements with local, high-quality skilled nursing facilities. In addition to benefiting residents, the implementation of this operating strategy has strengthened and expanded our network of referral sources.

As part of our *Safely Somewhere* initiative, we offer free home visits to seniors. The objective of this program is to work with potential residents, their families and physicians to determine an outcome that will meet their needs. Our home visit services include social visits, safety checks and evaluations to identify home and care needs. We offer post-hospital or nursing facility discharge follow-up and coordination with families and referral sources. We believe that by working with seniors to resolution, potential residents are more willing to view Emeritus as an option while also improving our community network.

Quality Assurance

We have an ongoing quality assurance process that occurs in each of our communities. Our program is designed to achieve resident and family member satisfaction with the care and services we provide. We perform quality assurance audits of care and operational systems on an ongoing basis using the Comprehensive Process Review ("CPR") auditing tool. Our quality and

risk management team developed the CPR auditing tool in collaboration with other departments at the community, regional, and divisional levels. We review and evaluate all areas of community operations and care systems using this comprehensive process. The audit includes an inspection of the community that evaluates three major areas: quality of care, quality of life, and community practices and behavior. On a regular basis, we monitor our customer and employee satisfaction and their perception of the quality of our services through surveys and our Ethics First compliance and anonymous reporting program.

Our communities have established ongoing resident and/or family meetings through care conferences and/or family night meetings. We obtain feedback, recommendations, and suggestions to improve overall quality performance of the community from the residents, responsible parties, and staff. The CPR, Ethics First compliance program, resident care conferences, and family night meetings are significant components of our continuous quality improvement program. We use these processes to benchmark our ongoing efforts to improve quality, enhance customer satisfaction, and minimize risk exposure. Beginning in 2013, our *Family Connects* program and expanded customer experience surveys provide us with further opportunities to improve our resident care.

Administration

We employ an integrated structure of management, financial systems, and controls to support quality services at our communities and to maximize operating efficiency and contain costs. In addition, we have developed internal procedures, policies, and standards we believe are necessary for effective operation and management of our communities. We have recruited seasoned key employees with years of experience in the senior living services field and believe we have assembled the administrative, operational, and financial personnel who will enable us to continue to manage our operating strategies effectively.

Our senior living operating group currently consists of seven geographic divisions and two service-specific divisions. Our management approach is the same across all geographic divisions. An operational vice president heads each division in a collaborative team system that includes a vice president of sales and marketing and a vice president of quality service. Each divisional team oversees several operating regions headed by a regional director of operations, who provides management support services for each of the communities in his/her respective region, along with the respective regional director of sales and marketing and director of quality service. An on-site executive director supervises day-to-day community operations and, in certain jurisdictions, must satisfy various licensing requirements. We provide management support services to each of our communities, including operating systems and standards, recruiting, training, and financial and accounting services. Our automated resident assessment system helps to ensure that our communities maintain a quality standard of care, meet state compliance requirements, and capture charges associated with services provided in a flexible and customizable manner.

We have centralized senior living finance and other operational support functions at our home office in Seattle, Washington, in order to allow community-based personnel to focus on resident care. At our home office, we establish policies and procedures that we disseminate to the entire Company, oversee our financial and marketing functions, manage our acquisition and development activities, and determine our overall strategic direction. We maintain certain administrative and finance functions for NOC at the subsidiary level.

We use a combination of centralized and decentralized accounting and computer systems that link each community with our executive offices. Through these systems, we are able to monitor occupancy rates and operating costs and distribute financial and operating information to appropriate levels of management in a cost effective manner. In 2011, we replaced or upgraded our systems for resident care evaluation, labor tracking, rate management, and employee training. We believe that our data systems provide the flexibility to meet the requirements of our operations. Our financial and accounting software platform is scalable, which positions us for future growth and has enabled us to respond quickly and cost effectively to changes in our business arising from mergers and acquisitions, regulatory and compliance matters, and changes in financial reporting requirements. We use high quality hardware and operating systems from current and proven technologies to support our technology infrastructure. We intend to invest to a greater degree in information technology in the coming years to further enhance our infrastructure.

Competition

The assisted living industry is highly competitive and fragmented. Our competition comes from local, regional, and national assisted living companies that operate, manage, and develop residences within the geographic areas in which we operate, as well as retirement housing communities, home healthcare agencies, not-for-profit or charitable operators and, to a lesser extent, skilled nursing facilities and convalescent centers. In general, regulatory and other barriers to competitive entry in the assisted

living industry are not substantial, except in the skilled nursing segment. Although new construction of assisted living communities has increased recently, the industry continues to expect absorption to exceed new supply. We have experienced, and expect to continue to experience, competition in our efforts to acquire and operate assisted living communities. Some of our present and potential competitors have, or may obtain, greater financial resources than we have and may have a lower cost of capital. Consequently, we may encounter competition that could limit our ability to attract residents or expand our business, which could have a material adverse effect on our financial position, results of operations or cash flows. Our publicly traded competitors include Brookdale Senior Living, Inc., Five Star Quality Care, Inc., and Capital Senior Living Corporation.

Government Regulation

Federal, state, and local authorities heavily regulate the healthcare industry. While these regulatory and licensing requirements often vary significantly from state to state, they typically include:

- state and local laws impacting licensure;
- consumer protection against deceptive practices;
- laws affecting the management of property and equipment, including living accommodations such as room size, number of bathrooms, ventilation, furnishing of resident units, and other physical plant specifications;
- laws affecting how we conduct our operations, such as staffing, staff training, personnel education, records management, admission and discharge criteria, documentation and reporting requirements, privacy laws, and fire, health, and safety laws and regulations;
- federal and state laws designed to protect Medicare and Medicaid, which mandate and define allowable costs, pricing, billing and claims submission, quality of services, quality of care, food service, resident rights (including abuse and neglect) and responsibilities, and fraud; and
- federal and state residents' rights statutes and regulations; Anti-Kickback and physicians referral (Stark) laws; and safety and health standards set by the Occupational Safety and Health Administration.

Changes in applicable laws and new interpretations of existing laws can significantly affect our operations, as well as our revenues and expenses. Our communities are subject to varying degrees of regulation and licensing by local and state health and social service agencies and other regulatory authorities. In addition, federal, state, and local officials increasingly are focusing their efforts on enforcement of these laws.

As of December 31, 2013, our Operated Portfolio consisted of 512 communities in 45 states. Each of these states has its own business licensure requirements and, depending on the type of assisted living or related service we provide in each of our communities, additional licensure requirements (including, in some cases, a Certificate of Need). Our Operated Portfolio may also be subject to state and/or local building, zoning, fire, and food service codes and must be in compliance with these local codes before licensing or certification may be granted. Assisted living communities are subject to periodic surveys or inspections by governmental authorities to assess and assure compliance with regulatory requirements. Such unannounced surveys or inspections occur annually or biannually, or may occur following a state's receipt of a complaint about the community. As a result of any such survey or inspection, authorities may allege that the senior living community has not complied with all applicable regulatory requirements. Typically, assisted living communities then have the opportunity to correct alleged deficiencies by implementing a plan of correction, but the reviewing agency typically has the authority to take further action against a licensed or certified facility. Authorities may enforce compliance through imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension or denial of admissions, loss of certification as a provider under federal healthcare programs, or imposition of other sanctions. From time to time, in the ordinary course of business, we receive deficiency reports from state regulatory bodies resulting from regulatory inspections or surveys.

We are subject to certain federal and state laws that regulate financial arrangements by healthcare providers, such as the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Federal Anti-Kickback Law and the False Claims Act. The Federal Anti-Kickback Law makes it unlawful for any person to offer or pay (or to solicit or receive) any remuneration directly or indirectly, overtly or covertly, in cash or in kind for referring or recommending for purchase any item or service which is eligible for payment under the Medicare or Medicaid programs. Authorities have interpreted this statute very broadly to apply to many practices and relationships between healthcare providers and sources of patient referral. If an entity were to violate the Anti-Kickback Law, it may face criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as Medicare and Medicaid. In addition, with respect to our participation in federal healthcare reimbursement programs, the government or private individuals acting on behalf of the government may bring an action under the False Claims Act alleging that a healthcare provider has defrauded the government and seek treble damages for

false claims and the payment of additional monetary civil penalties. The False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Many states have enacted similar anti-kickback and false claims laws that may have a broad impact on providers and their payor sources. We are also subject to federal and state laws designed to protect the confidentiality of patient health information. The U.S. Department of Health and Human Services has issued rules pursuant to HIPAA relating to the privacy of such information. In addition, many states have confidentiality laws, which in some cases may exceed the federal standard.

We believe that we are in compliance with applicable government regulations.

Environmental Matters

Under various federal, state, and local environmental laws, a current or previous owner or operator of real property, such as Emeritus, may be held liable in certain circumstances for the costs of investigation, removal, or remediation of certain hazardous or toxic substances, including, among others, petroleum and materials containing asbestos, that could be located on, in, at, or under a property, regardless of how such materials came to be located there. Additionally, such an owner or operator of real property may incur costs relating to the release of hazardous or toxic substances, including government fines, payments for personal injuries or damage to adjacent property. In addition, such laws impose liability for investigation, remediation, removal, and mitigation costs on persons who disposed of or arranged for the disposal of hazardous substances at third-party sites. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence, release or disposal of such substances without regard to whether such release or disposal was in compliance with law at the time it occurred. Moreover, the imposition of such liability could be joint and several, which means we could be required to pay for the cost of cleaning up contamination caused by others who have become insolvent or otherwise judgment proof.

We do not believe that we have incurred any such liabilities that would have a material adverse effect on our financial condition, results of operations, or cash flows.

Some of our communities generate infectious or other hazardous medical waste due to the illness or physical condition of the residents and incontinence products of those residents diagnosed with an infectious disease. The management of infectious medical waste, including its handling, storage, transportation, treatment, and disposal, is subject to regulation under various federal, state, and local environmental laws. These environmental laws set forth the management requirements for such waste, as well as related permit, record-keeping, notice, and reporting obligations. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste. The use of such waste management companies does not immunize us from alleged violations of such medical waste laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to clean up disposal sites at which such wastes have been disposed. Any finding that we are not in compliance with environmental laws could have a material adverse effect on our financial condition, results of operations, or cash flows.

Federal regulations require building owners and those exercising control over a building's management to identify and warn, via signs and labels, their employees and certain other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials (together, "asbestos materials") in their buildings. The regulations also set forth employee training, record-keeping requirements, and sampling protocols pertaining to asbestos materials. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to asbestos materials. The regulations may affect the value of a building containing asbestos materials in which we have invested. Federal, state, and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of asbestos materials when such materials are in poor condition or in the event of construction, remodeling, renovation, or demolition of a building. Such laws may impose liability for improper handling or a release to the environment of asbestos materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with these materials.

The presence of mold, lead-based paint, contaminants in drinking water, radon and/or other substances at any of the communities we own or may acquire may lead to the incurrence of costs for remediation, mitigation, or the implementation of an operations and maintenance plan, or present a risk that third parties will seek recovery from the owners, operators, or tenants of such properties for personal injury or property damage. In some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract residents and could adversely affect a community's market value.

We believe that we are in compliance with applicable environmental laws.

Employees

As of December 31, 2013, Emeritus had approximately 32,000 employees, including approximately 21,675 full-time employees. We employed approximately 647 full-time employees in our Seattle and regional offices. Of our approximately 32,000 total employees, approximately 996 work at our managed communities. We believe our relationship with our employees is good.

On September 25, 2009, a majority of employees at one community in Indiana voted to be represented by a labor union. Since August 2012, we have been in discussions with the union representing these employees to negotiate a collective bargaining agreement with the union. We have yet to reach a contract with the union.

On October 5, 2012, a majority of employees within the Wellness Department at one community in Minnesota voted to be represented by a labor union in an election conducted by the National Labor Relations Board ("NLRB"), after which the regional director of the NLRB certified the union as the exclusive collective bargaining representative of those employees. We contested the certification on the basis that a bargaining unit limited to the employees in that department was not appropriate. The NLRB upheld the certification. We appealed the NLRB's decision to the United States Court of Appeals for the D.C. Circuit, which is holding the appeal in abeyance pending a decision by the United States Supreme Court in another case that could impact our appeal.

Except as described above, we are unaware of any labor union representing any of our other employees or of any employees attempting to organize a labor union.

Available Information

Our annual reports on Form 10-K, along with all other reports and amendments filed with or furnished to the Securities and Exchange Commission ("SEC"), are publicly available free of charge on the Investor Relations section of our website at www.emeritus.com as soon as reasonably practicable after these materials are filed with or furnished to the SEC. These materials may also be obtained at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including Emeritus. Our corporate governance policies, code of conduct, code of ethics and Board committee charters and policies are also posted on the Investor Relations section of our website at www.emeritus.com. The information on our website is not part of this or any other report that Emeritus files with, or furnishes to, the SEC.

ITEM 1A. RISK FACTORS

Our financial condition, results of operations, and cash flows are subject to many risks, including, but not limited to, those set forth below.

Risks Related to the Merger

The Merger is subject to various closing conditions, including regulatory approvals, and other uncertainties and there can be no assurances as to whether and when it may be completed. On February 20, 2014, Emeritus and Brookdale entered into the Merger Agreement, pursuant to which Brookdale Merger Sub Corporation, a wholly owned subsidiary of Brookdale, will merge with and into Emeritus, with Emeritus continuing as the surviving corporation and wholly owned subsidiary of Brookdale. Completion of the Merger is subject to certain closing conditions, including, among other things: (i) shareholder approval from the Emeritus shareholders and Brookdale shareholders, (ii) the expiration or termination of the applicable waiting period under the HSR Act, (iii) absence of legal impediments preventing consummation of the Merger, (iv) the effectiveness of the registration statement on Form S-4 to be filed by Brookdale relating to the shares of Brookdale common stock to be issued in the Merger, (v) approval by the New York Stock Exchange of the listing of shares of Brookdale common stock to be issued to Emeritus shareholders under the Merger Agreement, (vi) the receipt of required regulatory approvals and lender consents, (vii) the delivery of opinions from counsel to each of Emeritus and Brookdale to the effect that the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and (viii) the absence

of a material adverse effect with respect to the Company, as well as other conditions to closing as are customary in transactions such as the Merger.

A number of the closing conditions are outside of our control and we cannot predict with certainty whether and when any of the required closing conditions will be satisfied or if other uncertainties may arise. In addition, regulatory entities and lenders could impose requirements or obligations as conditions for their approvals which could delay or increase the cost of the Merger and otherwise negatively impact our performance and financial condition. Despite our best efforts, we may not be able to satisfy or receive in a timely fashion the various closing conditions and obtain the necessary approvals, and such failure or delay in completing the Merger may cause uncertainty or other negative consequences that may materially and adversely affect our performance, financial condition, results of operations, price per share of our common stock and perceived acquisition value.

Failure to complete the Merger could adversely impact our business, financial condition, results of operations and stock price. There is no assurance that the conditions to the Merger will be satisfied in a timely manner or at all or that the Merger will occur. Further, there is no assurance that any event, change or other circumstances will not occur that could give rise to the termination of the Merger Agreement. If the Merger is not completed for any reason, we will be subject to several risks, including without limitation, (i) the price of our common stock may decline if the Merger is not completed, to the extent our current stock price reflects a market assumption that the Merger will occur; (ii) we will remain liable for significant transaction costs that would be payable even if the Merger is not completed; (iii) a failed transaction may result in negative publicity and a negative impression of Emeritus in the investment community; (iv) matters related to the Merger have required and may require substantial commitments of time and resources by our management that could otherwise have been devoted to other business opportunities that would have been beneficial to Emeritus; and (v) any disruptions to our business resulting from the announcement and pendency of the Merger, including any adverse changes in our relationships with our residents, employees, vendors, lenders and landlords could continue or accelerate in the event of a failed transaction. For these and other reasons, failure to consummate the Merger could adversely impact our business, financial condition, results of operations, and cash flows.

If the Merger Agreement is terminated, we may, under certain circumstances, be obligated to pay a termination fee or break-up fee to Brookdale. If the Merger is not completed, in certain circumstances, we would still be liable for significant transaction costs and could also be required to pay a termination fee of \$13.5 million, in the event we fail to obtain approval from our shareholders, or a break-up fee of \$53.0 million in other specific circumstances, including without limitation, a change in our board's recommendation to our shareholders or termination to accept an alternative acquisition proposal. Payment of the termination fee or break-up fee may require us to use available cash that would have otherwise been available for general corporate purposes, which could materially and adversely impact our financial condition, results of operations and cash flows.

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could materially and adversely affect our business. The Merger Agreement includes restrictions on the conduct of our business prior to completing the Merger, subjecting us to a variety of specified limitations absent Brookdale's prior written consent. These restrictions and other contractual arrangements in the Merger Agreement may delay or prevent us from or limit our ability to exercise business strategies, respond effectively to industry developments, competitive pressures and other business opportunities or to make other changes to our business prior to completion of the Merger or termination of the Merger Agreement. In addition, employees, residents and other persons with whom we have a relationship may have concerns about effects of the Merger, which may cause them to terminate such relationships. It is possible that the persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationship with us as a result of the Merger. Similarly, current and prospective employees may experience uncertainty about their future roles with us following completion of the Merger, which may materially and adversely affect our ability to attract and retain key employees. If any of these effects were to occur, it could materially and adversely impact our business, financial condition, results of operations and cash flows.

The Merger Agreement and Voting Agreement contain provisions that could discourage or limit our ability to pursue an alternative acquisition proposal to the Merger. The Merger Agreement prohibits Emeritus from initiating, soliciting or knowingly encouraging the submission of, or participating in any discussions or negotiations with respect to certain alternative acquisition proposals with third parties, subject to the exceptions in the Merger Agreement. In addition, our Chairman, Daniel R. Baty, and certain of his affiliates (the "Baty Shareholders") entered into a voting agreement with Brookdale, pursuant to which the Baty Shareholders agreed to vote in favor of the approval of the Merger Agreement and the transactions contemplated thereby, and to vote against any alternative acquisition proposals. These provisions limit our ability to pursue offers from third parties, or may discourage an otherwise interested third party from considering or proposing an alternative

acquisition transaction, even one that could result in greater value to our shareholders than the value resulting from the Merger. Although we are permitted in certain circumstances to consider proposals that may lead to a “superior proposal” (as defined in the Merger Agreement), the potential break-up fee may result in a third party offering a lower value to our shareholders or discourage third parties altogether from pursuing an acquisition proposal with respect to Emeritus.

Emeritus shareholders cannot be sure of the value of the consideration they will receive as a result of the Merger because the exchange ratio used to determine the number of shares that shareholders receive as a result of the Merger will not be adjusted. Pursuant to the terms of the Merger, at the effective time of the Merger, each issued and outstanding share of Emeritus common stock will be canceled and converted into the right to receive consideration equal to 0.95 of one share of Brookdale common stock. The ratio of the number of shares of Brookdale common stock to be issued in exchange for shares of Emeritus common stock will not be adjusted to reflect any changes in the stock price of either Emeritus or Brookdale. The market price of Brookdale common stock at the time of completion of the Merger may vary significantly from the market price of Emeritus common stock on the date the Merger Agreement was executed or at other later dates, including the date on which Emeritus shareholders will vote on the approval of the Merger Agreement. Because we will not adjust the exchange ratio to reflect any changes in the market price of Emeritus common stock or Brookdale common stock, the market value of the Brookdale common stock issued in connection with the Merger and the Emeritus common stock surrendered in connection with the Merger may be higher or lower than the values of those shares on earlier dates. Stock price changes may result from market reaction to the announcement of the Merger and market assessment of the likelihood that the Merger will be completed, changes in the business, operations or prospects of Emeritus or Brookdale prior to or following the Merger, regulatory considerations, general business, market, industry or economic conditions and other factors both within and beyond the control of Emeritus and Brookdale.

Uncertainties regarding Brookdale’s business, financial condition, results of operations and cash flows may affect the value of the consideration received by Emeritus shareholders. Under the Merger Agreement, Brookdale is subject to very limited restrictions during the pendency of the Merger, including a restriction prohibiting Brookdale from initiating, soliciting or knowingly encouraging the submission of, or participating in any discussions or negotiations with respect to certain alternative transactions. However, Brookdale is not limited from pursuing certain strategic or financial transactions that do not constitute a “takeover proposal” or that contemplate the purchase of the combined companies following the Merger. As a result, there is a risk that Brookdale’s business may change before or after the completion of the Merger, which may affect the value of Emeritus shares prior to the completion of the Merger and the value of Brookdale common stock held by Emeritus shareholders following the completion of the Merger.

If the Merger is completed, the combined companies may fail to realize the anticipated benefits of the Merger. Because the consideration payable to our shareholders in the Merger consists solely of shares of Brookdale common stock, realization of the anticipated benefits in the Merger will depend on the ability of Brookdale and Emeritus to successfully integrate their respective businesses and operations. A significant amount of management’s attention and resources will be required to integrate the business, operations and support functions. The integration process may cause an interruption or loss of momentum in the combined companies’ businesses and financial performance. The integration process could also result in additional and unforeseen expenses. There can be no assurance that the contemplated expense savings and synergies anticipated from the Merger will be realized.

Shareholder litigation against Emeritus and our directors could delay or prevent the Merger and cause us to incur significant costs and expenses. Transactions such as the Merger are often subject to lawsuits by shareholders. One of the conditions to the closing of the Merger is that no restraining order, injunction, judgment, order or decree shall have been issued by a court or other law, legal restraint or prohibition shall be in effect preventing the Merger. Consequently, any lawsuit with respect to the Merger may prevent the Merger from becoming effective within the expected time frame or at all. If the Merger is prevented or delayed, it could result in substantial costs to Emeritus and Brookdale. In addition, Emeritus will continue to incur significant costs in connection with the lawsuits, including costs associated with the indemnification of our directors and officers.

Our executive officers and directors may have interests that are different from, or in addition to, those of our shareholders generally. Emeritus shareholders should be aware that certain of the directors and executive officers of Emeritus may have arrangements that provide them with interests in the Merger transaction that are different from, or in addition to, those of the shareholders of Emeritus, generally. For instance, it is anticipated that in connection with the Merger, Mr. Granger Cobb, who is our current President and Chief Executive Officer and also one of our directors, will be appointed to serve on the Brookdale board of directors. In addition, the Baty Shareholders have entered into a voting agreement, pursuant to which the Baty Shareholders have agreed to vote in favor of the Merger Agreement and against any alternative acquisition transaction. Other interests of our executive officers and directors include direct or indirect ownership of Emeritus common stock, stock options

and restricted stock, the acceleration of stock options and restricted stock upon consummation of the Merger, certain arrangements between certain of our executive officers and Brookdale and other interests. Further, certain executives may receive severance and other payments in the event of the Merger or if their employment is terminated following consummation of the Merger. The interests of our directors and executive officers in the proposed Merger will be described in more detail in the proxy statement regarding the proposed Merger that we will file with the Securities and Exchange Commission.

Risks Related to our Business

Emeritus has incurred losses since it began doing business, except for 2005, and may continue to incur losses for the foreseeable future. Emeritus was organized and began operations in July 1993 and has operated at a loss since it began doing business, except for 2005. For December 31, 2013, 2012, and 2011, we recorded losses of \$152.6 million, \$84.8 million and \$71.9 million, respectively. We believe that the historically aggressive growth of our Consolidated Portfolio through acquisitions and developments and related financing activities, as well as our inability (along with most of the assisted living industry) to significantly increase occupancy and rates at our communities, were among the causes of these losses. To date, at many of our communities, we have generally been able to stabilize occupancy and rate structures to levels that have resulted in positive cash flows from operating activities but not overall Company earnings. Our ongoing results of operations may not become profitable in line with our current expectations or may not become profitable at all.

If the Company cannot generate sufficient cash flows to cover required interest, principal, and lease payments, it risks defaults on its debt agreements and leases. As of December 31, 2013, we had total debt, including interest, of \$1.9 billion, with minimum annual payments of \$239.8 million due in 2014, and have both long-term operating and capital lease obligations, including interest, of \$8.8 billion requiring minimum payments of an additional \$375.5 million in 2014. If we are unable to generate sufficient cash flows to make such payments as required and we are unable to renegotiate payments or obtain additional equity or debt financing, a lender could foreclose on the communities secured by the respective indebtedness or, in the case of a lease, could terminate our lease, resulting in loss of income and asset value. In some cases, our indebtedness is secured by a particular community and a pledge of our interests in a subsidiary entity that owns that community. In the event of a default, a lender could avoid judicial procedures required to foreclose on real property by foreclosing on our pledge instead, thus accelerating the foreclosure of that community. Furthermore, because of cross-default and cross-collateralization provisions in certain of our mortgage and lease agreements, if we default on one of our payment obligations, we could adversely affect a significant number of our communities.

Because the Company is highly leveraged, we may not be able to respond to changing business and economic conditions or continue with selected acquisitions. A substantial portion of our future cash flows will be designated to debt service and lease payments. In the past, we have occasionally been dependent on third-party financing and disposition of assets to fund these obligations in full and we may be required to do so in the future. In addition, we are periodically required to refinance these obligations as they mature. As of December 31, 2013, our total debt, including interest, was \$1.9 billion, and our payment obligations, including interest, under long-term operating and capital leases were \$8.8 billion. These circumstances could reduce our flexibility and ability to respond to our business needs, including changing business and financial conditions such as increasing interest rates and opportunities to expand our business through selected acquisitions.

We may be unable to increase or stabilize our occupancy rates at levels that would result in positive earnings. In previous years, we have been unable to increase our occupancy to levels that would result in net income on a sustained basis. Our historical losses have resulted, in part, from occupancy levels that were lower than anticipated when we acquired or developed our communities. Our occupancy levels may not increase in the future and may never reach levels necessary to achieve net income.

We may not find additional funding through public or private financing on acceptable terms. We may not find adequate equity, debt, sale-leaseback or other financing when we need it or on terms acceptable to us. This could affect our ability to finance our operations or refinance our communities to avoid the consequences of default and foreclosure under our existing financing as described elsewhere. In addition, if we raise additional funds by issuing equity securities, our shareholders may experience dilution in their investment.

If we fail to comply with financial covenants contained in our debt instruments, our lenders may accelerate the repayment of the related debt. From time to time, we have failed to comply with certain covenants in our financing and lease agreements relating generally to matters such as cash flow, debt, and lease coverage ratios, and certain other performance standards. In the future, we may be unable to comply with these or other covenants. If we fail to comply with any of these requirements and are not able to obtain waivers, our lenders could accelerate the repayment of the related indebtedness so that it becomes due and

payable prior to its stated due date, and/or the lessors could terminate lease agreements. We may be unable to repay or refinance this debt if it becomes due.

We self-insure many of our liabilities. In recent years, participants in the long-term care industry have experienced a number of lawsuits alleging negligence, malpractice, or other related legal theories. Many of these suits involve large claims and significant legal costs. We currently face such suits because of the nature of our business and expect to continue to do so in the future. For 267 of the 497 communities in our Consolidated Portfolio, we are self-insured and, as such, prior to October 2013, are responsible for the full loss of any professional liability claims. In October 2013, we purchased a professional liability commercial insurance policy with a retention of \$5.0 million per claim and a policy limit of \$15.0 million. Professional liability claims incurred subsequent to September 2013 will be subject to this policy, limiting our liability for such claims.

Claims against us, regardless of their merit or eventual outcome, may also adversely affect the reputation of our communities, undermine our ability to attract residents or expand our business and would require management to devote time to matters unrelated to the operation of our business. We review our liability insurance annually, but we may not be able to obtain third-party liability insurance coverage in the future or, if available, on acceptable terms.

In addition to professional liability claims and claims related to the Merger as discussed above, the Company is at risk for the following:

Whistleblower Lawsuits - The Company may be subject to qui tam or “whistleblower” lawsuits under the False Claims Act and comparable federal and state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. Qui tam lawsuits typically remain under seal (and, as a result, are usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff and take the lead in the litigation.

Employment-related Lawsuits - The Company’s operations are subject to a variety of federal and state employment-related laws and regulations, including, but not limited to, the U.S. Fair Labor Standards Act, the Americans with Disabilities Act, regulations of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws, and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims and other lawsuits and proceedings in connection with the Company’s operations, including those related to alleged wrongful discharge, illegal discrimination and violations of equal employment and federal and state wage and hour laws.

Minimum Staffing Lawsuits - Various states in which the Company operates have established minimum staffing requirements or may establish minimum staffing requirements in the future. While the Company seeks to comply with all applicable staffing requirements, the regulations in this area are complex and the Company may experience compliance issues from time to time.

Ordinary Course Matters - In addition to the matters described above, the Company is subject to various other claims, lawsuits and governmental audits, investigations and proceedings arising in the ordinary course of business.

The defense of the foregoing claims, lawsuits and governmental audits, investigations and proceedings, certain of which may allege large amounts of damages and losses, may require the Company to incur significant expense and may necessitate significant time and attention from the Company’s management. Adverse outcomes in such matters, whether as a result of litigation or settlement, may (i) jeopardize the Company’s participation in certain state and federal healthcare programs, (ii) result in citations, civil and criminal penalties (including the loss of the Company’s licenses to operate one or more communities or healthcare activities), recoupment and/or substantial compensatory and punitive damages and attorneys’ fees that may, either individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations and liquidity, (iii) cause the Company to close or sell one or more of its properties or otherwise modify the way in which the Company conducts its business, (iv) damage the Company’s reputation in various markets, which could adversely affect the Company’s ability to attract residents, patients, and employees, and (v) in the case of “whistleblower” lawsuits brought under the False Claims Act and comparable federal and state laws, result in awards of bounties to private qui tam plaintiffs who successfully bring these lawsuits and to the government programs.

We face risks associated with acquisitions. In the past, we have sought selective acquisition opportunities. Under the Merger Agreement, we are subject to a number of restrictions limiting our ability to acquire businesses or assets. To the extent we do

identify and complete any future acquisition opportunities, subject to the restrictions set forth in the Merger Agreement, we will face a number of risks, similar to those encountered in connection with our prior acquisitions of communities. Existing communities available for acquisition may frequently serve or target different market segments than those we presently serve. It may be necessary in these cases to reposition and renovate acquired communities or turn over the existing resident population to achieve a resident care level and income profile that is consistent with our objectives. In some cases in the past, these obstacles have delayed the achievement of acceptable occupancy levels and increased operating and capital expenditures. Even if we try to minimize our risk by targeting assisted living communities with established operations, we may need to make staff and operating management personnel changes to successfully integrate acquired communities into our existing operations. These efforts may not prove to be successful or timely. We also may face unforeseen liabilities attributable to the prior operator of the acquired communities, against whom we may have little or no recourse. We also face risks associated with acquiring ancillary services businesses, especially since we do not have a history of operating such businesses.

Competition for the acquisition of strategic assets from buyers that have lower costs of capital than us or lower return expectations than we do could limit our ability to compete for strategic acquisitions and therefore to grow our business effectively. Several real estate investment trusts, or REITs, have similar asset acquisition objectives as we do, along with greater financial resources and lower costs of capital than we are able to obtain. This may increase competition for acquisitions that would be suitable to us, making it more difficult for us to compete and successfully implement our growth strategy. There is significant competition among potential acquirers in the senior living industry, including REITs, and there can be no assurance that we will be able to successfully implement our growth strategy or complete acquisitions, which could limit our ability to grow our business effectively. Partially as a result of tax law changes enacted through RIDEA, we now compete more directly with the various publicly-traded healthcare REITs for the acquisition of senior housing properties.

If the Company is unable to refinance its debt that is scheduled to come due in 2014 on reasonable terms, it may have an adverse effect on the Company and the market price of our common stock. The Company has principal payments on long-term debt of \$153.0 million due in 2014, including balloon payments on debt maturing totaling \$106.7 million. If the Company is not able to generate sufficient cash flows to make the required payments or refinance this debt on reasonable terms, it may have a material adverse effect on the market value of our common stock and other adverse effects on our business, financial condition, results of operations, and cash flows.

We expect competition in our industry to increase, which could cause our occupancy rates and resident fees to decline. The senior living industry is highly competitive, and given the relatively low barriers to entry and continuing healthcare cost containment pressures, we expect that our industry will become increasingly competitive in the future. It is possible that market saturation in some locales could have an adverse effect on our communities and their ability to reach and maintain stabilized occupancy levels. Moreover, the senior housing services industry has been subject to pressures that have resulted in the consolidation of many small, local operations into larger regional and national multi-facility operations. We compete with other companies providing assisted living services as well as numerous other companies providing similar service and care alternatives, such as home healthcare agencies, independent living facilities, retirement communities, and skilled nursing facilities. We expect that competition from new market entrants will increase as senior living residences achieve increased market awareness. Some of these competitors may have substantially greater financial resources than we do. Increased competition may limit our ability to attract or retain residents or maintain our existing rate structures. This could lead to lower occupancy rates or lower rate structures in our communities.

If development of new senior living facilities outpaces demand, we may experience decreased occupancy, depressed margins, and diminished operating results. In the future, some senior living markets in which we operate could become overbuilt. The barriers to entry in the senior living industry are low. Consequently, the development of new senior living facilities could outpace demand. Overbuilding in the markets in which we operate could thus cause the Company to experience decreased occupancy and depressed margins and could otherwise adversely affect our results of operations.

Market forces could undermine our efforts to attract seniors with sufficient resources. We rely on the ability of our residents to pay our fees from their own or family financial resources. We believe that only seniors with income or assets meeting or exceeding the comparable median in the region where our senior living communities are located can afford our fees. The economic recession, slowly recovering housing market, inflation, or other circumstances may undermine the ability of seniors to pay for our services. If we encounter difficulty in attracting seniors with adequate resources to pay for our services, our occupancy rates may decline or we may be forced to lower our rental and service rates.

Our labor costs may increase and may not be matched by corresponding increases in rates we charge to our residents. We compete with other providers of assisted living services and long-term care in attracting and retaining qualified and skilled

personnel. We depend on our ability to attract and retain management personnel responsible for the day-to-day operations of each of our communities. If we are unable to attract or retain qualified community management personnel, our results of operations may suffer. In addition, possible shortages of nurses or trained personnel may require us to enhance our wage and benefits packages to compete in the hiring and retention of personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. From time to time we are the subject of union organizing activity that, if successful, could impact our labor costs. As a result of these and other factors, our labor costs may increase and may not be matched by corresponding increases in rates we charge to our residents.

The geographic concentration of our communities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas, resulting in a decrease in our revenues or an increase in our costs, or otherwise negatively impacting our results of operations. We have a high concentration of communities in various geographic areas, including the states of Florida, Texas, California, Washington, Oregon and Arizona. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to assisted living communities, acts of nature and other factors that may result in a decrease in demand for senior living services in these states could have an adverse effect on our revenues, costs and results of operations. In addition, given the location of our communities, we are particularly susceptible to revenue loss, cost increase or damage caused by other severe weather conditions or natural disasters such as hurricanes, earthquakes or tornadoes. Any significant loss due to a natural disaster may not be covered by insurance and may lead to an increase in the cost of insurance.

Some of our communities generate infectious medical waste due to the illness or physical condition of the residents. The management of infectious medical waste, including handling, storage, transportation, treatment, and disposal, is subject to regulation under various laws, including federal and state environmental laws, as described above under *Business—Environmental Matters*. These environmental laws set forth the management requirements, as well as permit, record-keeping, notice, and reporting obligations. Each of our communities has an agreement with a waste management company for the proper disposal of all infectious medical waste. The use of such waste management companies does not immunize us from alleged violations of such medical waste laws for operations for which we are responsible even if carried out by such waste management companies, nor does it immunize us from third-party claims for the cost to clean up disposal sites at which such wastes have been disposed. Any finding that we are not in compliance with these environmental laws could adversely affect our business and financial condition. While we are not aware of non-compliance with environmental laws related to infectious medical waste at our communities, these environmental laws are amended from time to time and we cannot predict when and to what extent liability may arise. In addition, because these environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

The Chairman of our board of directors, Daniel R. Baty, has personal interests that may conflict with ours. Mr. Baty has engaged in a number of transactions with us, each of which has been approved by a committee of our independent directors. For example, Mr. Baty is the principal owner of Columbia Pacific, a private company engaged in the development and operation of senior living communities and hospitals in India and other parts of Asia. Columbia Pacific and certain of its affiliated partnerships also own assisted living communities, memory care communities, and independent living communities in the United States, some of which we manage under various management agreements. These financial interests and management and financing responsibilities of Mr. Baty with respect to Columbia Pacific and certain of their affiliated partnerships could present conflicts of interest with us, including potential competition for residents in markets where both companies operate and competing demands for the time and efforts of Mr. Baty.

Mr. Baty's potentially competitive activities are limited by a shared opportunities agreement between him and the Company. Under the terms of this agreement, Mr. Baty and Columbia Pacific must immediately present to the Company all investment opportunities in senior living communities and ancillary businesses in the United States, Canada, and China. For transactions in the United States and Canada, we then have the option to participate in the investment opportunity through an ownership interest and/or management contract as set forth in the agreement. For transactions in China, we have the option to invest in the opportunity up to 50% of the equity value and compete for management or consulting services.

Mr. Baty financially supports some of our recent transactions and the operations of certain communities that we manage with limited guarantees and through his direct and indirect ownership of such communities; we would be unable to benefit from these transactions and managed communities without this support. As of December 31, 2013, we manage six communities owned by Mr. Baty or Columbia Pacific. Mr. Baty was also the guarantor of a portion of our obligations under a 24-community lease with an entity in which Mr. Baty has an ownership interest. We acquired these properties in February 2007 in a transaction in which the entity affiliated with Mr. Baty provided the Company with financing in the amount of \$18.0 million for

two years, which financing was paid off in July 2007. In 2004, Mr. Baty personally guaranteed \$3.0 million of our obligations under a long-term lease with Healthcare Property Investors, Inc., an independent REIT, which terminated with the purchase of these communities in August 2007. Also in 2004, Mr. Baty guaranteed our obligations under a long-term lease relating to 20 communities. As part of this arrangement, which, as of December 31, 2013, continues to be in effect for seven of the communities (the “Cash Flow Sharing Communities”), he shares in 50.0% of the positive cash flow (as defined) and is responsible for 50.0% of the cash deficiency for these communities. In 2008, we entered into a 50-50 joint venture with Mr. Baty to purchase the real estate of eight of the Cash Flow Sharing Communities (three of which continue to be jointly owned as of December 31, 2013 and are included in the seven total remaining Cash Flow Sharing Communities), into which Mr. Baty contributed approximately \$1.2 million in 2010 related to debt refinancings and \$1.1 million in 2009. In 2009, we borrowed \$3.2 million from Columbia Pacific to finance the purchases of two communities that we previously managed for Columbia Pacific. We subsequently paid off these loans in January 2011. We believe that we would have been unable to take advantage of these transactions and management opportunities without Mr. Baty’s individual and financial support. The ongoing administration of these transactions, however, could adversely affect these continuing relationships because our interests and those of Mr. Baty may not be congruent at all times. In addition, we cannot guarantee that his support will be available in the future.

We may be unable to attract and retain key management personnel. We depend upon, and will continue to depend upon, the services of our senior management. The loss of services of our senior management could adversely affect our business and our results of operations. We also may be unable to attract and retain other qualified executive personnel critical to the success of our business.

Our costs of compliance with government regulations may significantly increase in the future. Federal, state, and local authorities heavily regulate the healthcare industry, as described above under *Business—Government Regulation*. Regulations change frequently, and sometimes require us to make expensive changes in our operations. We cannot predict to what extent legislative or regulatory initiatives will be enacted or adopted or what effect any initiative would have on our business and operating results. Changes in applicable laws and new interpretations of existing laws can significantly affect our operations, as well as our revenues, particularly those from governmental sources, and our expenses. These laws and regulatory requirements could affect our ability to expand into new markets and to expand our services and communities in existing markets. In addition, if any of our presently licensed communities operates outside of its licensing authority, it may be subject to financial or other penalties, including closure of the community and/or liability to residents if injury occurs. Our residential communities are subject to varying degrees of regulation and licensing by local and state health and social service agencies and other regulatory authorities. In addition, our skilled nursing facilities and certain of our senior living communities are subject to extensive federal regulation. Federal, state, and local governments occasionally conduct unannounced investigations, audits, and reviews to determine whether violations of applicable rules and regulations exist. Devoting management and staff time and legal resources to such investigations, as well as any material violation by the Company that is discovered in any such investigation, audit, or review, could strain our resources and affect our results of operations. In addition, regulatory oversight of construction efforts associated with refurbishment could cause us to lose residents and disrupt community operations.

We may be unable to satisfy all regulations and requirements or to acquire and maintain any required licenses on a cost-effective basis. We have occasionally received notices of regulatory violations, which we have resolved by paying fines or taking other measures such as limiting our business activities at a particular community until the violation is resolved. Failure to comply with applicable requirements could lead to enforcement action that could materially and adversely affect business and revenues. Loss, suspension, or modification of a license may also cause a default under certain of our leases and financing agreements and/or trigger cross-defaults.

The federal and state laws governing assisted living are various and complex. While we endeavor to comply with all laws that regulate the licensure and operation of our communities, it is difficult to predict how our business could be affected if it were subject to an action alleging such violations.

The Company is also subject to federal and state regulations regarding government-funded public assistance that prohibit certain business practices and relationships. Because we accept residents who receive financial assistance from governmental sources for their senior living services, we are subject to federal and state regulations that prohibit certain business practices and relationships. Failure to comply with these regulations could prevent reimbursement for our healthcare services under Medicare or Medicaid or similar state reimbursement programs. Our failure to comply with such regulations also could result in substantial financial penalties and/or the suspension or inability to renew our operating licenses. Acceptance of federal or state funds could subject the Company to potential false claims actions or whistleblower claims.

Our entrance into the home healthcare and rehabilitation services business subjects the Company to additional federal and state laws and regulations and, if the Company fails to comply with these laws and regulations, could subject the Company to substantial financial and other penalties. Substantially all of our skilled nursing and ancillary services, including those provided by NOC, are reimbursed under Medicare programs. These services are subject to enhanced federal and state laws and regulations, including those regarding acquisition and maintenance of provider and supplier numbers, services provided, quality of care, provision of medically necessary items and services, and billing and claims submission. Failure to comply with these laws and regulations could subject the Company to substantial financial and other penalties, which could materially and adversely affect our business and revenues.

We face possible environmental liabilities at each of our communities. Under various federal, state, and local environmental laws, ordinances, and regulations, as described above under *Business—Environmental Matters*, a current or previous owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances, including asbestos materials that could be located on, in, or under our community. These laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. We could face substantial costs of any required remediation or removal of these substances, and our liability typically is not limited under applicable laws and regulations. Our liability could exceed our communities' value or the value of our assets. We may be unable to sell or rent our communities, or borrow using our communities as collateral, if any of these substances are present or if we fail to remediate them properly. Under these laws and regulations, if we arrange for the disposal of hazardous or toxic substances such as asbestos materials at a disposal site, we also may be liable for the costs of the removal or destruction of the hazardous or toxic substances at the disposal site. In addition to liability for these costs, we could be liable for governmental fines and injuries to persons or properties.

Significant reforms to the United States healthcare system could have an adverse effect on our financial position, results of operations and liquidity. The healthcare reforms contained in the ACA will impact us in some manner, including increasing our costs to provide healthcare benefits to our employees. The specific provisions of the ACA will be phased in over time through 2018, unless modifying legislation is passed before some of the provisions become effective. The ACA did not have a material financial impact on our Company in 2013. However, we could see significant cost increases beginning in 2014 when certain additional provisions of the legislation are required to be implemented.

The ACA creates a series of robust transparency and reporting requirements for skilled nursing facilities, including requirements to disclose information on organizational structures, financial, clinical and other related data as well as information on officers, directors, trustees or managing employees. Skilled nursing facilities are required to certify to the Secretary of the U.S. Department of Health and Human Services and the U.S. Department of Health and Human Services Office of Inspector General that the information submitted is accurate and current. In addition, a primary goal of healthcare reform is to reduce costs, which includes reductions in the reimbursement paid to us and other healthcare providers. Although 80.4% of our 2013 community and ancillary services revenues came from private pay sources, these healthcare reforms or other similar healthcare reforms could have an adverse effect on our financial position, results of operations and liquidity.

Changes in the reimbursement rates or methods or timing of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursement for our services and products could result in a reduction in our revenues and operating margins or otherwise adversely affect our business, financial position, results of operations, and liquidity. We depend on reimbursement from third-party payors, including the Medicare and Medicaid programs, for a portion of our revenues. For the year ended December 31, 2013, we derived approximately 19.6% of our community and ancillary services revenues from the Medicare and Medicaid programs. Nearly all of NOC's services are reimbursed by Medicare. The Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes.

There are continuing efforts to reform governmental healthcare programs, both as part of the ACA enacted in 2010 and otherwise, that could result in major changes in the healthcare delivery and reimbursement system on a national and state level. Reforms or other changes to the payment systems may be proposed or could be adopted by Congress or Centers for Medicare and Medicaid Services ("CMS"). This could result in attempts to reduce or eliminate payments for federal and state healthcare programs, including Medicare and Medicaid. Moreover, uncertain economic conditions are also adversely affecting the budgets of individual states and of the federal government.

The Budget Control Act of 2011, enacted on August 2, 2011, increased the United States debt ceiling in connection with deficit reductions over the next ten years. The Budget Control Act of 2011 also established a 12-member joint committee of Congress known as the Joint Select Committee on Deficit Reduction. The goal of the Joint Select Committee on Deficit Reduction was to

propose legislation to reduce the United States federal deficit by \$1.5 trillion for fiscal years 2012-2021. Since such legislation was not enacted by December 23, 2011, approximately \$1.2 trillion in domestic and defense spending reductions were scheduled to automatically begin on January 1, 2013, split evenly between domestic and defense spending. The American Taxpayer Relief Act, effective January 1, 2013, delayed until March 1, 2013 the mandatory sequestration cuts mandated by the Budget Control Act of 2011. On April 1, 2013, the mandated 2.0% reduction in Medicare payments went into effect. Although we can offset a portion of Medicare cuts through targeted expense reductions, the expense reductions did not fully offset the revenue decrease.

In 2013, CMS issued a rule to update Medicare payment rates for home health agencies. The rule results in rebasing adjustments over a four-year period beginning in 2014. CMS estimates that net payments to home health agencies will decrease by approximately 1.5% in 2014.

Although we cannot predict what other reform proposals will be adopted or finally implemented, healthcare reform and regulations, such as those described above, could have an adverse effect on our business, financial position, results of operations and liquidity through, among other things, decreasing funds available for our services or increased operating costs.

In addition to the risks described above, investing in Emeritus common stock involves the following risks.

We may experience volatility in the market price of Emeritus common stock due to the lower trading volume and lower public ownership of Emeritus common stock. The market price of our common stock has fluctuated significantly in the past and is likely to continue to be highly volatile. For example, our closing stock price ranged from \$18.41 per share to \$30.56 per share during 2013.

Many factors could cause the market price of our common stock to significantly rise and fall, including:

- reaction to the proposed Merger;
- fluctuations in the price of Brookdale common stock;
- fluctuations in our results of operations;
- changes in our business, operations, or prospects;
- changes in the regulatory environment;
- sales of Emeritus common stock by affiliates;
- the hiring or departure of key personnel;
- announcements or activities by our competitors;
- proposed acquisitions by us or our competitors;
- financial results that fail to meet public market analysts' expectations and changes in stock market analysts' recommendations regarding us, other healthcare companies, or the healthcare industry in general;
- adverse judgments or settlements obligating us to pay damages;
- acts of war, terrorism, or national calamities;
- industry, domestic and international market and economic conditions; and
- decisions by investors to de-emphasize investment categories, groups, or strategies that include our Company or industry.

In addition, the stock market periodically experiences significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of Emeritus common stock. When the market price of a company's stock drops significantly, shareholders may institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert our time and attention and other resources, or otherwise harm our business.

Future sales of shares by existing shareholders could cause our stock price to decline. As of December 31, 2013, the Company has outstanding approximately 48,118,623 shares of common stock, of which our executive officers and directors and affiliates controlled by them beneficially own 6,829,560 shares. As discussed above, in connection with the Merger Agreement, the Baty Shareholders entered into a voting agreement pursuant to which Mr. Baty and certain of his affiliates agreed not to sell or transfer any shares of Emeritus common stock held by them, subject to certain exceptions.

As of December 31, 2013, options for a total of 3,989,814 shares of common stock were outstanding under our equity incentive plans, of which a total of 2,825,370 shares were then exercisable. Of the shares exercisable, 1,022,308 shares were exercisable at a price in excess of our stock trading price as of December 31, 2013. All of the shares issuable on exercise of such vested options are eligible for sale in the public market. If our executive officers, directors, or significant shareholders sell, or indicate

an intention to sell, substantial amounts of Emeritus common stock in the public market, the trading price of our stock could decline.

In addition, subject to the restrictions in the Merger Agreement, we may issue equity securities in the future, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. Sales of a substantial number of shares of our common stock or other equity securities, including sales of shares in connection with any future acquisitions, could be substantially dilutive to our shareholders. These sales may have a harmful effect on prevailing market prices for our common stock and our ability to raise additional capital in the financial markets at a time and price favorable to us. Moreover, to the extent that we issue restricted stock units, stock appreciation rights, options, or warrants to purchase our common stock in the future and those stock appreciation rights, options, or warrants are exercised or as the restricted stock units vest, our shareholders may experience further dilution. In 2013, 2012 and 2011, we issued a total of 371,725, 366,172, and 435,000 shares, respectively, of restricted stock to certain of our executive officers, respectively, which pursuant to their terms will vest over four years if specified Company annual performance criteria are met. In addition, in May 2013, we issued a total of 24,787 shares of restricted stock to our non-employee directors, which pursuant to their terms will vest on the day immediately prior to the annual shareholders meeting that follows the date of grant. Under the Merger Agreement, any in-the-money stock options or shares of restricted stock that have not yet vested will accelerate and the holders will receive shares of Brookdale common stock based on the ratios set forth in the Merger Agreement.

Holders of our shares of common stock have no preemptive rights that entitle holders to purchase a pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. Our certificate of incorporation provides that we have authority to issue 100,000,000 shares of common stock and 20,000,000 shares of preferred stock. As of December 31, 2013, 48,118,623 shares of common stock and no shares of preferred or other capital stock were issued and outstanding.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline. The trading market for our common stock may depend in part on any research reports that securities or industry analysts publish about the Company or our business. We currently have limited research coverage by securities and industry analysts. Lack of research coverage could negatively impact the market for our stock. In the event additional securities or industry analysts do initiate coverage of our Company and one or more of these analysts downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline.

We do not anticipate paying any cash dividends in the foreseeable future. We have never declared or paid any dividends on our common stock. We currently expect to retain any future earnings to finance the operation and expansion of our business. Future dividend payments will depend on our results of operations, financial condition, capital expenditure plans and other obligations and circumstances, and will be at the sole discretion of our board of directors. Some of our existing leases and lending arrangements contain provisions that restrict our ability to pay dividends, and we anticipate that the terms of future leases and debt financing arrangements may contain similar restrictions. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Our issuance of preferred stock could adversely affect holders of our common stock. Subject to the limitations set forth in the Merger Agreement, our board of directors is authorized to issue preferred stock without any action on the part of our holders of common stock. Our board of directors also has the power, without shareholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends, or if we liquidate, dissolve, or wind up our business, and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock, or the price of our common stock, could be adversely affected.

Antitakeover provisions of Washington law, our restated articles of incorporation and our restated bylaws may prevent or delay an acquisition of us that shareholders may consider favorable or may prevent or delay attempts to replace or remove our board of directors. Our restated articles of incorporation and restated bylaws contain provisions, such as the right of our directors to issue preferred stock from time to time with voting, economic, and other rights superior to those of our common stock without the consent of our shareholders, and prohibitions on cumulative voting in the election of directors, all of which could make it more difficult for a third party to acquire us without the consent of our board of directors. In addition, our restated articles of incorporation provide for our board of directors to be divided into three classes serving staggered terms of three years each, permit removal of directors only for cause by the holders of not less than two-thirds of the shares entitled to elect the director

whose removal is sought, and require two-thirds shareholder approval of certain matters, including business combination transactions not approved by our incumbent board of directors and the amendment of our restated bylaws. Furthermore, our restated bylaws require advance notice of shareholder proposals and nominations and impose restrictions on the persons who may call special shareholder meetings. In addition, Chapter 23B.19 of the Washington Business Corporation Act prohibits certain business combinations between us and certain significant shareholders unless certain conditions are met. These provisions may have the effect of delaying or preventing a change of control of our Company even if this change of control would benefit our shareholders.

ITEM 1B. UNRESOLVED SEC STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Communities

We operate 512 senior living communities in 45 states, most of which consist of one-story to three-story buildings and include common dining and social areas. Frequently, a community provides multiple types of service. Of the 512 communities we operate, 309 offer memory care services, 104 offer some independent living services, and 27 offer skilled nursing services. All but five of the communities that we own are encumbered with mortgage debt. The table below summarizes information regarding our Operated Portfolio as of December 31, 2013.

| States | Number of | | | Communities | | |
|----------------|-------------|--------|----------|-------------|-------|--------|
| | Communities | Units | Capacity | Own | Lease | Manage |
| Alabama | 2 | 136 | 136 | — | 2 | — |
| Arizona | 20 | 1,799 | 2,005 | 13 | 6 | 1 |
| Arkansas | 5 | 496 | 502 | 4 | 1 | — |
| California | 73 | 7,813 | 8,631 | 14 | 59 | — |
| Colorado | 8 | 851 | 910 | 3 | 5 | — |
| Connecticut | 6 | 474 | 529 | — | 6 | — |
| Delaware | 2 | 152 | 173 | 1 | 1 | — |
| Florida | 43 | 4,649 | 5,438 | 24 | 18 | 1 |
| Georgia | 21 | 1,335 | 1,597 | 4 | 17 | — |
| Idaho | 5 | 368 | 418 | 5 | — | — |
| Illinois | 8 | 810 | 939 | 4 | 4 | — |
| Indiana | 7 | 698 | 813 | 2 | 3 | 2 |
| Iowa | 2 | 186 | 189 | 1 | 1 | — |
| Kansas | 3 | 219 | 245 | 2 | 1 | — |
| Kentucky | 4 | 326 | 368 | 1 | 3 | — |
| Louisiana | 6 | 526 | 609 | 5 | 1 | — |
| Maryland | 6 | 537 | 583 | 1 | 5 | — |
| Massachusetts | 11 | 1,143 | 1,224 | 4 | 7 | — |
| Michigan | 2 | 216 | 240 | 1 | 1 | — |
| Minnesota | 2 | 211 | 409 | 1 | 1 | — |
| Mississippi | 8 | 652 | 734 | 5 | 3 | — |
| Missouri | 1 | 186 | 214 | — | 1 | — |
| Montana | 3 | 237 | 284 | 1 | 2 | — |
| Nebraska | 5 | 454 | 516 | — | 5 | — |
| Nevada | 6 | 541 | 629 | 2 | 3 | 1 |
| New Hampshire | 1 | 90 | 100 | 1 | — | — |
| New Jersey | 10 | 1,004 | 1,089 | 5 | 5 | — |
| New Mexico | 4 | 408 | 501 | — | 4 | — |
| New York | 19 | 1,404 | 1,562 | 11 | 5 | 3 |
| North Carolina | 8 | 651 | 713 | 6 | 2 | — |
| North Dakota | 1 | 85 | 85 | — | 1 | — |
| Ohio | 18 | 1,608 | 1,944 | 3 | 12 | 3 |
| Oklahoma | 7 | 534 | 632 | — | 7 | — |
| Oregon | 33 | 2,534 | 2,823 | 1 | 31 | 1 |
| Pennsylvania | 6 | 459 | 590 | 5 | 1 | — |
| South Carolina | 15 | 1,473 | 1,643 | 3 | 12 | — |
| Tennessee | 11 | 687 | 783 | 1 | 10 | — |
| Texas | 54 | 4,861 | 6,231 | 35 | 17 | 2 |
| Utah | 4 | 370 | 418 | — | 4 | — |
| Vermont | 1 | 101 | 113 | 1 | — | — |
| Virginia | 12 | 993 | 1,308 | 5 | 7 | — |
| Washington | 41 | 3,716 | 3,976 | 10 | 30 | 1 |
| West Virginia | 3 | 276 | 334 | 1 | 2 | — |
| Wisconsin | 3 | 289 | 327 | — | 3 | — |
| Wyoming | 2 | 114 | 123 | — | 2 | — |
| | 512 | 46,672 | 53,630 | 186 | 311 | 15 |

Executive Offices

Our executive offices are located in Seattle, Washington, where we lease approximately 77,000 square feet of space. Our lease agreement expires in September 2025.

ITEM 3. LEGAL PROCEEDINGS

The Company has been, is currently, and expects in the future to be involved in claims, lawsuits, and regulatory and other governmental audits, investigations and proceedings arising in the ordinary course of business. These claims, lawsuits and other matters, which are similar to those to which other companies in the senior living and healthcare industries are subject, include the following:

Professional and General Liability Claims - As a result of the nature of our business, we are subject to professional and general liability claims and lawsuits (with respect to which a substantial portion of our liability, if any, is self-insured).

Whistleblower Lawsuits - The Company may be subject to qui tam or “whistleblower” lawsuits under the False Claims Act and comparable federal and state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. Qui tam lawsuits typically remain under seal (and, as a result, are usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff and take the lead in the litigation.

Employment-related Lawsuits - The Company’s operations are subject to a variety of federal and state employment-related laws and regulations, including, but not limited to, the U.S. Fair Labor Standards Act, the Americans with Disabilities Act, regulations of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws, and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims and other lawsuits and proceedings in connection with the Company’s operations, including those related to alleged wrongful discharge, illegal discrimination and violations of equal employment and federal and state wage and hour laws.

Minimum Staffing Lawsuits - Various states in which the Company operates have established minimum staffing requirements or may establish minimum staffing requirements in the future. While the Company seeks to comply with all applicable staffing requirements, the regulations in this area are complex and the Company may experience compliance issues from time to time.

Ordinary Course Matters - In addition to the matters described above, the Company is subject to various other claims, lawsuits and governmental audits, investigations and proceedings arising in the ordinary course of business.

The defense of the foregoing claims, lawsuits and governmental audits, investigations and proceedings, certain of which may allege large amounts of damages and losses, may require the Company to incur significant expense and may necessitate significant time and attention from the Company’s management. Adverse outcomes in such matters, whether as a result of litigation or settlement, may (i) jeopardize the Company’s participation in certain state and federal healthcare programs, (ii) result in citations, civil and criminal penalties (including the loss of the Company’s licenses to operate one or more communities or healthcare activities), recoupment and/or substantial compensatory and punitive damages and attorneys’ fees that may, either individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations and liquidity, (iii) cause the Company to close or sell one or more of its properties or otherwise modify the way in which the Company conducts its business, (iv) damage the Company’s reputation in various markets, which could adversely affect the Company’s ability to attract residents, patients, and employees, and (v) in the case of “whistleblower” lawsuits brought under the False Claims Act and comparable federal and state laws, result in awards of bounties to private qui tam plaintiffs who successfully bring these lawsuits and to the government programs.

We maintain a combination of self-insurance reserves and commercial insurance policies in amounts and with coverage and deductibles that we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. We cannot predict the ultimate outcome of any pending litigation, claims, or regulatory and other governmental audits, investigations and proceedings. Certain of these matters are not covered by insurance, and, in any event, there is no

assurance that our actual costs or damages related to any such matter will not exceed such reserves or applicable insurance policy limits.

On June 4, 2013, in *Joan Boice et al. v. Emeritus Corporation et al.*, the Sacramento County Superior Court entered final judgment in favor of Joan Boice (deceased) and against the Company in the amount of \$250,000 in compensatory damages and \$23.0 million in punitive damages for alleged elder abuse. Judgment was also entered in favor of Ms. Boice’s three adult children for \$250,000 and the court awarded the plaintiffs’ lawyer over \$4.1 million in attorneys’ fees. On July 8, 2013, the Company filed a Notice of Appeal challenging, among other things, the excessive nature of the punitive damages award. Furthermore, the Company intends to argue that the trial court issued several erroneous rulings allowing the jury to consider extraneous, irrelevant, and collateral evidence unrelated to the care of Ms. Boice, meriting reversal or a remand for additional trial proceedings on all issues.

On July 29, 2013, a claim alleging the failure to provide certain services at our California assisted living communities was filed by Arville Winans, by and through his Guardian ad Litem, Renee Moulton, against the Company in the Alameda County Superior Court and subsequently removed to the United States District Court for the Northern District of California. In this case, the plaintiff is seeking to represent a class of residents at such California communities during the period beginning July 29, 2009. The plaintiff alleges violations of certain laws, including California’s Consumer Legal Remedies Act, Unfair Competition Law and Financial Elder Abuse statute. In connection with the claims for liability, the plaintiff is seeking an injunction, restitution, attorney’s fees and costs, treble damages and punitive damages. The Company believes that the suit is without merit and has filed a motion to dismiss the action in its entirety.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded on the New York Stock Exchange (the “NYSE”) under the symbol ESC. The following table sets forth for the periods indicated the high and low sales prices for Emeritus common stock as reported on the NYSE.

| | 2013 | | 2012 | |
|----------------|----------|----------|----------|----------|
| | High | Low | High | Low |
| First Quarter | \$ 30.95 | \$ 24.83 | \$ 19.90 | \$ 15.56 |
| Second Quarter | 28.22 | 21.72 | 18.65 | 14.24 |
| Third Quarter | 26.56 | 18.15 | 21.99 | 21.55 |
| Fourth Quarter | 22.77 | 18.30 | 24.83 | 23.86 |

As of December 31, 2013, we had 91 holders of record of Emeritus common stock, although there is a much larger number of beneficial owners.

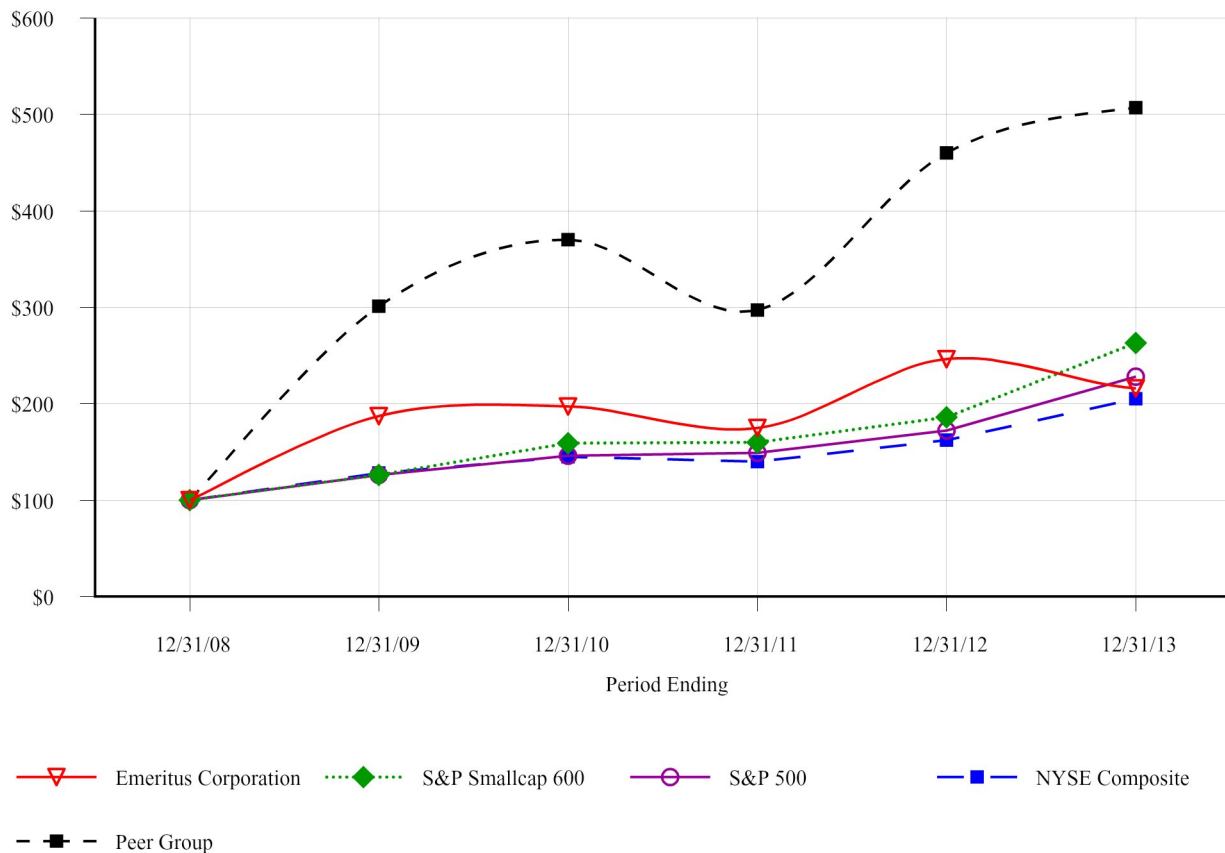
We have never declared or paid any dividends on our common stock, and we currently expect to retain any future earnings to finance the operation and expansion of our business. Future dividend payments will depend on our financial condition, results of operations, capital expenditure plans, and other obligations and will be at the sole discretion of our board of directors. Certain of our existing leases and lending arrangements contain provisions that restrict our ability to pay dividends, and we anticipate that the terms of future leases and debt financing arrangements may contain similar restrictions. Therefore, we do not anticipate paying any cash dividends on Emeritus common stock in the foreseeable future.

Stock Performance Graph

The following graph compares the cumulative five-year total return provided to shareholders on shares of Emeritus common stock relative to the cumulative total returns of the S&P 500 Index, S&P Smallcap 600 Index, NYSE Composite Index, and a

customized peer group selected by us for the period beginning on December 31, 2008 and ending on December 31, 2013. In making this comparison, an investment of \$100 with reinvestment of all dividends is assumed to have been made in our common stock in each index and in the peer group. Stock price performance shown below for our common stock is historical and not necessarily indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Emeritus Corporation, the S&P Smallcap 600 Index, the S&P 500 Index,
the NYSE Composite Index, and a Peer Group



*\$100 invested on 12/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

| | December 31, | | | | | |
|----------------------|--------------|-----------|-----------|-----------|-----------|-----------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Emeritus Corporation | \$ 100.00 | \$ 186.94 | \$ 196.51 | \$ 174.58 | \$ 246.46 | \$ 215.65 |
| S&P Smallcap 600 | 100.00 | 125.57 | 158.60 | 160.22 | 186.37 | 263.37 |
| S&P 500 | 100.00 | 126.46 | 145.51 | 148.59 | 172.37 | 228.19 |
| NYSE Composite | 100.00 | 128.28 | 145.46 | 139.87 | 162.23 | 204.87 |
| Peer Group | 100.00 | 300.97 | 370.11 | 296.89 | 459.72 | 507.27 |

Our peer group consists of Brookdale Senior Living, Inc., Capital Senior Living Corporation and Five Star Quality Care, Inc.

Securities Authorized for Issuance under Equity Compensation Plans

The information called for by this Item is contained in the *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* section of this Form 10-K.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected data presented below under the captions “Consolidated Statements of Operations Data” and “Consolidated Balance Sheet Data” for or as of each of the years in the five-year period ended December 31, 2013, are derived from the consolidated financial statements of Emeritus Corporation. The consolidated balance sheets as of December 31, 2013 and 2012 and consolidated statements of operations for each of the years in the three-year period ended December 31, 2013, are included in the *Exhibits, Financial Statements and Schedules* section of this Form 10-K.

| | Year Ended December 31, | | | | |
|--|---------------------------------------|-------------|-------------|--------------|-------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands, except per share data) | | | | |
| Consolidated Statements of Operations Data: | | | | | |
| Total operating revenues | \$ 1,960,618 | \$1,568,076 | \$1,472,623 | \$ 1,128,910 | \$ 950,196 |
| Total operating expenses | 1,818,264 | 1,470,343 | 1,410,936 | 1,069,294 | 901,330 |
| Operating income from continuing operations | 142,354 | 97,733 | 61,687 | 59,616 | 48,866 |
| Net other expense | (283,585) | (176,261) | (111,361) | (116,875) | (102,013) |
| Loss from continuing operations before income taxes | (141,231) | (78,528) | (49,674) | (57,259) | (53,147) |
| Benefit of (provision for) income taxes | (639) | 1,158 | (1,019) | 762 | (336) |
| Loss from continuing operations | (141,870) | (77,370) | (50,693) | (56,497) | (53,483) |
| Loss from discontinued operations | (11,100) | (7,705) | (21,570) | (1,345) | (1,335) |
| Net loss | (152,970) | (85,075) | (72,263) | (57,842) | (54,818) |
| Net loss attributable to the noncontrolling interest | 409 | 231 | 354 | 883 | 943 |
| Net loss attributable to Emeritus Corporation common shareholders | \$ (152,561) | \$ (84,844) | \$ (71,909) | \$ (56,959) | \$ (53,875) |
| Basic and diluted loss per common share attributable to Emeritus Corporation common shareholders: | | | | | |
| Continuing operations | \$ (3.04) | \$ (1.73) | \$ (1.14) | \$ (1.39) | \$ (1.34) |
| Discontinued operations | (0.24) | (0.17) | (0.49) | (0.03) | (0.03) |
| | \$ (3.28) | \$ (1.90) | \$ (1.63) | \$ (1.42) | \$ (1.37) |
| Weighted average number of common shares outstanding: | | | | | |
| Basic and diluted | 46,553 | 44,680 | 44,312 | 39,974 | 39,183 |

| | December 31, | | | | |
|---|--------------|--------|--------|--------|--------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated Operating Data: | | | | | |
| Communities Emeritus Corporation owns or leases | 497 | 461 | 328 | 306 | 266 |
| Number of units | 45,173 | 40,988 | 29,905 | 28,277 | 24,055 |

| | December 31, | | | | |
|---|----------------|-----------|-----------|------------|-----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 76,672 | \$ 59,795 | \$ 43,670 | \$ 110,124 | \$ 46,070 |
| Working capital deficit | (137,557) | (55,541) | (100,079) | (17,728) | (7,482) |
| Total assets | 4,594,648 | 4,660,750 | 2,810,328 | 2,613,792 | 2,089,940 |
| Long-term debt, less current portion | 1,345,242 | 1,558,936 | 1,528,710 | 1,305,757 | 1,375,088 |
| Capital lease and financing obligations, less current portion | 2,481,930 | 2,384,857 | 619,088 | 629,797 | 165,372 |
| Total Emeritus Corporation shareholders' equity | 111,670 | 211,423 | 279,100 | 344,345 | 312,082 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our Business

We are one of the largest and fastest-growing operators of senior living communities in the United States. We own and operate a portfolio of high-quality, purpose-built communities providing resident services including independent living, assisted living, specialized Alzheimer's/dementia ("memory care"), and, to a lesser extent, skilled nursing care. Beginning in the fourth quarter of 2012, we added home healthcare to our service offerings through our acquisition of Nurse On Call, Inc. ("NOC").

We strive to provide a wide variety of supportive living services in a professionally staffed environment that enables seniors to live with dignity and independence. Our holistic approach enhances every aspect of our residents' lives by assisting them with life enrichment activities including transportation, socialization and education, housing and 24-hour personal support services, such as medication management, bathing, dressing, personal hygiene and grooming. The average age of our residents is 85.

As of December 31, 2013, we owned 186 communities and leased 311 communities. These 497 communities comprise the communities included in the consolidated financial statements and are referred to as our "Consolidated Portfolio."

We also provide management services to independent and related-party owners of senior living communities. As of December 31, 2013, we managed 15 communities, three of which are owned by joint ventures in which we have a financial interest. The communities we manage for others, combined with our Consolidated Portfolio, are referred to as our "Operated Portfolio."

Merger Agreement with Brookdale

On February 20, 2014, Emeritus Corporation entered into an Agreement and Plan of Merger (the "Merger Agreement") with Brookdale Senior Living, Inc., a Delaware corporation ("Brookdale"), and Brookdale Merger Sub Corporation, a Delaware corporation and wholly owned subsidiary of Brookdale ("Merger Sub"). Pursuant to the terms, and subject to the conditions of the Merger Agreement, at the closing of the proposed transactions contemplated by the Merger Agreement, Merger Sub will be merged with and into Emeritus (the "Merger"), and Emeritus will continue as the surviving corporation of the Merger and as a wholly owned subsidiary of Brookdale.

The Merger Agreement was unanimously approved by the board of directors of each of Emeritus and Brookdale, and Emeritus has agreed to convene a special meeting of its shareholders to consider and vote upon the Merger Agreement and the Merger.

In connection with the Merger, each share of Emeritus common stock outstanding immediately prior to the effective time of the Merger (other than shares in respect of which dissenter's rights are perfected and other than any shares owned by Brookdale or its subsidiaries) will be automatically canceled and converted into the right to receive consideration equal to 0.95 of a share of Brookdale common stock (the "Exchange Ratio"). The Exchange Ratio is fixed and will not be adjusted for changes in the market value of Emeritus common stock or Brookdale common stock. No fractional shares of Brookdale common stock will be issued in the Merger, and Emeritus shareholders will receive cash in lieu of fractional shares, if any, of Brookdale common stock. Each share of Emeritus restricted stock outstanding immediately prior to the effective time of the Merger, whether or not then vested, will become fully vested and will be treated as a share of Emeritus common stock, to be canceled and converted in the same way as all other outstanding shares of Emeritus common stock, as described above.

Each Emeritus stock option outstanding immediately prior to the effective time of the Merger will be canceled and automatically converted into the right of the holder to receive a number of whole shares of Brookdale common stock, determined by (i) multiplying (A) the total number of shares subject to the Emeritus stock option by (B) an amount equal to the "applicable closing price," less the exercise price per share for such option, and (ii) dividing such amount by the ten-day volume weighted average closing price of Brookdale common stock (the "VWAP"). The number of shares of Brookdale common stock to be issued to the holder of the Emeritus stock option will be reduced to cover the minimum amount of any applicable tax withholdings. Any Emeritus stock option with an exercise price that is equal to or greater than the "applicable closing price" will terminate and cease to be outstanding, without any payment of consideration. The "applicable closing price" for purposes of the Merger Agreement is calculated by multiplying the VWAP by the Exchange Ratio.

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The consummation of the Merger is subject to customary closing conditions, including, among others, (i) obtaining approval of the Emeritus shareholders holding a majority of the outstanding shares of Emeritus common stock and approval of the Brookdale shareholders holding a majority of the outstanding shares of Brookdale common stock, (ii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) absence of legal impediments preventing consummation of the Merger, (iv) the effectiveness under the Securities Act of 1933, as amended, of the Registration Statement on Form S-4 relating to the issuance of the shares of Brookdale common stock in the Merger, (v) approval by the New York Stock Exchange of the listing of the shares of Brookdale common stock to be issued in the Merger, (vi) the receipt of required regulatory approvals and lender consents, (vii) the delivery of opinions from counsel to each of Emeritus and Brookdale to the effect that the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and (viii) the absence of a material adverse effect with respect to Emeritus or Brookdale, as well as other conditions to closing as are customary in transactions such as the Merger.

Emeritus and Brookdale each made customary representations and warranties for a transaction of this type. The Merger Agreement also contains customary covenants, including covenants providing (i) that both parties shall use reasonable best efforts to cause the transactions to be consummated, (ii) both parties shall jointly prepare and file a joint proxy statement and call and hold a special meeting of shareholders for each of Emeritus and Brookdale, and (iii) that neither party will solicit proposals relating to certain alternative transactions or engage in discussions or negotiations in connection with alternative transactions, subject to certain exceptions including in order to comply with fiduciary duties and in the case of Brookdale, certain permitted transactions. The Merger Agreement also requires Emeritus to conduct its operations in the ordinary course during the interim period between execution of the Merger Agreement and the completion of the Merger and to refrain from taking specific actions without Brookdale's prior written consent.

The Merger Agreement contains certain termination rights for both Emeritus and Brookdale, including, among other things, for the failure to consummate the Merger by November 20, 2014 (which date may be unilaterally extended by either party if certain closing conditions related to regulatory and third party approvals have not been satisfied), and for breaches of representations, warranties or covenants that result in the failure of certain conditions to closing being satisfied. In addition, in the event either Emeritus or Brookdale fails to obtain shareholder approval from their respective shareholders, the other party may terminate the Merger Agreement, upon which Emeritus or Brookdale, as applicable, will be required to pay the terminating party a termination payment of \$13.5 million. The Merger Agreement also provides either Emeritus or Brookdale may terminate the Merger Agreement under specified circumstances, including, among others, a change in the recommendation of the terminating party's board of directors or termination of the Merger Agreement to enter into a definitive agreement for a "superior proposal"; provided, however, that, in the case of Emeritus, Emeritus will be required to pay Brookdale a break-up fee of \$53.0 million, and in the case of Brookdale, Brookdale will be required to pay Emeritus a break-up fee of \$143.0 million.

Brookdale has agreed to take all action necessary to provide that its board of directors appoint one individual serving on the Emeritus board of directors to Brookdale's board of directors at the closing of the merger (subject to the approval of such nominee by the Brookdale's Nominating and Corporate Governance Committee). In connection with the foregoing, Emeritus anticipates that Granger Cobb, our President and Chief Executive Officer and a also director of Emeritus, will be joining Brookdale's board of directors and will be serving as a consultant to Brookdale, in each case, following the closing of the Merger.

The foregoing description of the Merger Agreement is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the full text of the Merger Agreement which will be included as an exhibit to Emeritus' Current Report on Form 8-K, which can be found in Emeritus' SEC filings at www.sec.gov.

Fiscal 2013 in Review

Emeritus' results for fiscal 2013 reflect the resiliency of our business model, the needs-driven nature of our primarily assisted living business and the talent and dedication of our employees. Our business has performed well this year despite the slow growth in the economy. We continued to execute our business strategy, which includes acquisitions, as discussed in detail in *Business—Business Strategy*, in this Form 10-K. Our business fundamentals remain consistent, as evidenced by growth in 2013 revenue and revenue per unit in our Same Community Portfolio (as defined below under *Same Community Portfolio*).

In 2013, total operating revenues increased to \$2.0 billion from \$1.6 billion in 2012 and \$1.5 billion in 2011. Operating income from continuing operations was \$142.4 million in 2013 compared to \$97.7 million in 2012 and \$61.7 million in 2011. We recorded a net loss attributable to our common shareholders of \$152.6 million in 2013 compared to \$84.8 million in 2012 and

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\$71.9 million in 2011. Positive cash flows generated by operating activities amounted to \$98.2 million in 2013 compared to \$116.6 million in 2012 and \$74.1 million in 2011.

Looking Ahead to 2014

The United States economy is slowly improving and we cannot predict future economic conditions or their impact on our financial condition and results of operations. However, we continue to believe that the needs-driven nature of our business and potential pent-up demand for assisted living services will support improved operating performance, especially if combined with economic recovery.

For 2014, we expect revenue and cash flow growth driven by recent acquisitions and continued improvements in our existing senior housing and ancillary businesses. In September 2013, we acquired 38 communities pursuant to an operating lease with Health Care REIT, Inc. ("HCN"). These communities were previously operated by Merrill Gardens (the "Merrill Gardens Communities"). To the extent permitted under the Merger Agreement, we intend to continue to selectively pursue acquisitions in certain target markets that will allow us to increase our capacity and improve our operating efficiencies.

Our Portfolios

As of December 31, 2013, our Consolidated Portfolio had a capacity for approximately 52,000 residents in 45 states, and our Operated Portfolio had a capacity for approximately 54,000 residents in 45 states. The following table shows a three-year comparison of our Consolidated and Operated Portfolios.

| | December 31, 2013 | | December 31, 2012 | | December 31, 2011 | |
|--------------------------|-------------------|---------------------------|-------------------|---------------------------|-------------------|------------|
| | Community Count | Unit Count ^(b) | Community Count | Unit Count ^(b) | Community Count | Unit Count |
| Owned | 186 | 15,476 | 192 | 16,157 | 187 | 15,309 |
| Leased(a) | 311 | 29,697 | 269 | 24,831 | 141 | 14,596 |
| Consolidated Portfolio | 497 | 45,173 | 461 | 40,988 | 328 | 29,905 |
| Managed | 12 | 1,301 | 13 | 1,357 | 9 | 933 |
| Managed - Joint Ventures | 3 | 198 | 9 | 687 | 141 | 11,809 |
| Operated Portfolio | 512 | 46,672 | 483 | 43,032 | 478 | 42,647 |

- (a) We account for 116 of the 311 leased communities as operating leases and 195 as capital or financing leases. We do not include the assets and liabilities of the 116 operating lease communities on our consolidated balance sheets.
- (b) For skilled nursing, beds are considered a unit.

Our Total Operated Portfolio as of December 31, 2013 consisted of the following unit types:

| | Units by Type of Service | | | | | Total |
|--------------------------|--------------------------|-------------------|-------------------|-------------------|----------------------|--------|
| | AL ^(a) | MC ^(b) | IL ^(c) | SN ^(d) | Other ^(e) | |
| Owned | 11,058 | 2,951 | 1,062 | 208 | 197 | 15,476 |
| Leased | 19,583 | 3,765 | 5,104 | 961 | 284 | 29,697 |
| Consolidated Portfolio | 30,641 | 6,716 | 6,166 | 1,169 | 481 | 45,173 |
| Managed | 782 | 226 | 247 | 25 | 21 | 1,301 |
| Managed - Joint Ventures | 122 | 76 | — | — | — | 198 |
| Operated Portfolio | 31,545 | 7,018 | 6,413 | 1,194 | 502 | 46,672 |

- (a) Assisted living
(b) Memory care
(c) Independent living
(d) Skilled nursing beds
(e) Units taken out of service

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The units taken out of service represent rooms that we have converted to alternative uses, such as additional office space, and are not available for immediate occupancy. We exclude the units taken out of service from the calculation of the average occupancy rate. We place these units back into service as demand dictates.

Significant Transactions

During 2013, 2012, and 2011, we entered into a number of transactions that affected our financing arrangements, our capital structure, and the number of communities we own, lease, and manage. The most significant was the HCP Transaction (see *Item 1. Business—Competitive Strengths—Successful Joint Venture Relationships*). In the fourth quarter of 2012, the Sunwest JV entered into a purchase and sale agreement with HCP and Emeritus whereby the Sunwest JV agreed to sell 142 of its communities to HCP and HCP agreed to lease 133 of the communities to Emeritus (the “HCP Leased Communities”) and sell nine communities to Emeritus (the “Emeritus Nine Communities”).

For details on significant transactions that affected the comparability of the financial statements included in this Form 10-K, including the purchase of NOC, see Note 2, *Investments in Unconsolidated Joint Ventures—Sunwest Joint Venture* and Note 4, *Acquisitions and Other Significant Transactions*.

Transactions affecting our Operated Portfolio for the three years ended December 31, 2013 are summarized in the following table:

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| | Transaction Period | Unit Count | Transaction Type | Change in Owned Count | Purchase Price ^(a) (000) ^(b) | Amount Financed ^(b) (000) | Change in Leased Count | Change in Managed Count |
|---|--------------------|------------|-------------------|-----------------------|--|--------------------------------------|------------------------|-------------------------|
| Count as of December 31, 2010 | | | | 165 | | | 141 | 173 |
| 2011 Activity | | | | | | | | |
| Plaza on the River | Jan 2011 | 64 | Joint venture (c) | – | N/A | N/A | – | – |
| Emeritus at Baywood | Jan 2011 | 126 | Acquisition | 1 | \$ 12,855 | \$ 10,000 | – | – |
| Emeritus at Steel Lake | Mar 2011 | 87 | Managed | – | N/A | N/A | – | 1 |
| Emeritus at Mandeville | Mar 2011 | 84 | Acquisition | 1 | 10,400 | 7,800 | – | – |
| Palmer Ranch Healthcare | Apr 2011 | 160 | Joint venture (c) | – | N/A | N/A | – | 1 |
| Emeritus at Spruce Wood | May 2011 | 90 | Acquisition | 1 | 19,065 | 14,115 | – | – |
| Emeritus at New Port Richey | May 2011 | 70 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Venice | May 2011 | 78 | Disposition | (1) | N/A | N/A | – | – |
| Blackstone JV | Jun 2011 | 1,897 | Acquisition (d) | 24 | 144,130 | 58,608 | – | (24) |
| Emeritus at Fillmore Pond | Jul 2011 | 101 | Acquisition | 1 | 20,935 | 15,825 | – | – |
| Emeritus at Vista Oaks and Emeritus at Summer Ridge | Jul 2011 | 135 | Acquisition | 2 | 19,700 | 14,700 | – | – |
| Emeritus at Lakeland Hills | Aug 2011 | 170 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Long Cove Pointe | Sep 2011 | 81 | Joint venture | – | N/A | N/A | – | 1 |
| Emeritus at Bayside Terrace | Oct 2011 | 154 | Disposition | – | N/A | N/A | – | (1) |
| Colonial Gardens | Oct 2011 | 47 | Disposition | – | N/A | N/A | – | (1) |
| Emeritus at Pavillion | Dec 2011 | 174 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Cambria | Dec 2011 | 79 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Palisades | Dec 2011 | 158 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Cielo Vista | Dec 2011 | 66 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Desert Springs | Dec 2011 | 30 | Disposition | (1) | N/A | N/A | – | – |
| Count as of December 31, 2011 | | | | 187 | | | 141 | 150 |
| 2012 Activity | | | | | | | | |
| Emeritus at Greenwood | Apr 2012 | 66 | Disposition | (1) | N/A | N/A | – | – |
| Eastwood and Tanglewood Trace | Jul 2012 | 251 | Managed | – | N/A | N/A | – | 2 |
| Emeritus at Vinings Place | Jul 2012 | 52 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Landmark Villa | Aug 2012 | 97 | Disposition | – | N/A | N/A | (1) | – |
| Emeritus at Urbandale | Aug 2012 | 38 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Fulton Villa | Sep 2012 | 80 | Managed | (1) | N/A | N/A | – | 1 |
| Emeritus at Woodland Place | Sep 2012 | 36 | Joint Venture | – | N/A | N/A | – | 1 |
| HCP Transaction | Oct 2012 | 258 | Acquisition (e) | 9 | 62,000 | 52,000 | 127 | (131) |
| HCP Transaction - Phase II | Dec 2012 | – | Acquisition | – | N/A | N/A | 2 | (2) |
| Emeritus at Kingwood | Dec 2012 | 93 | Managed | – | N/A | N/A | – | 1 |
| Count as of December 31, 2012 | | | | 192 | | | 269 | 22 |

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| | Transaction Period | Unit Count | Transaction Type | Change in Owned Count | Purchase Price ^(a) (000) ^(b) | Amount Financed ^(b) (000) | Change in Leased Count | Change in Managed Count |
|--|--------------------|------------|------------------|-----------------------|--|--------------------------------------|------------------------|-------------------------|
| Count as of December 31, 2012 | | | | 192 | | | 269 | 22 |
| 2013 Activity | | | | | | | | |
| Necanicum Village | Feb 2013 | 80 | Disposition | – | N/A | N/A | – | (1) |
| Emeritus at Diablo Lodge | Mar 2013 | 118 | Acquisition | – | N/A | N/A | 1 | – |
| HCP Transaction - delayed close properties | Mar 2013 | – | Acquisition | – | N/A | N/A | 4 | (4) |
| Big Sky | Apr 2013 | 159 | Disposition | – | N/A | N/A | – | (1) |
| Emeritus at Roseville Gardens | Apr 2013 | – | Acquisition | 1 | 3,900 | — | (1) | – |
| Sunshine Village | Apr 2013 | 84 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Pinellas Park | May 2013 | 97 | Disposition | – | N/A | N/A | (1) | – |
| Emeritus at Augusta | May 2013 | 50 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Fulton Villa | Jun 2013 | 80 | Disposition | – | N/A | N/A | – | (1) |
| Emeritus at Springtree | Jun 2013 | – | Sale-leaseback | (1) | N/A | N/A | 1 | – |
| Emeritus at Halcyon Village | Jul 2013 | 76 | Acquisition | – | N/A | N/A | 1 | – |
| Terrace at Jasper | Jul 2013 | 62 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at West Park Place | Aug 2013 | 123 | Disposition | (1) | N/A | N/A | – | – |
| HCN - Merrill Gardens | Sep 2013 | 4,406 | Acquisition | – | N/A | N/A | 38 | – |
| Emeritus at Escondido | Nov 2013 | 84 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Emerald Estates | Dec 2013 | 119 | Disposition | (1) | N/A | N/A | – | – |
| Emeritus at Silverdale | Dec 2013 | 46 | Disposition | – | N/A | N/A | (1) | – |
| Count as of December 31, 2013 | | | | 186 | | | 311 | 15 |

(a) Purchase price exclusive of closing costs.

(b) Purchase price and amount financed are not applicable for new lease and management agreements or expansions and dispositions.

(c) Management of units previously operated by an unrelated third party.

(d) Represents the purchase of Blackstone's 81% ownership interest in the joint venture. See Note 4, *Acquisitions and Other Significant Transactions-Blackstone JV Acquisition*.

(e) Included in the HCP Transaction are five buildings, four leased and one owned, that are operated by unrelated third parties and are included in the consolidated statements.

Results of Operations

Sources of Revenues

As described in *Item 1—Business*, we generate revenues by providing senior housing and related healthcare services to the senior population. We are the largest provider of assisted living and memory care services in the United States, with a capacity for approximately 54,000 residents. Assisted living and memory care units comprise approximately 82.6% of our total Operated Portfolio.

The two basic drivers of our community revenues are the rates we charge our residents and the occupancy levels we achieve in our communities. In evaluating the rate component, we utilize the average monthly revenue per occupied unit, computed by dividing the total operating revenue for a particular period by the average number of occupied units for the same period. In evaluating the occupancy component, we track the average occupancy rate, computed by dividing the average units occupied during a particular period by the average number of units available during the period.

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We rely primarily on our residents' ability to pay our charges for senior living services from their own or family resources and expect that we will do so for the foreseeable future. Private pay revenues represented 80.4% of our consolidated community and ancillary services revenues and 87.9% of our consolidated senior living community revenues for the year ended December 31, 2013. We believe that only residents with income or assets meeting or exceeding the regional median can afford to reside in our communities, and that the rates we charge and our occupancy levels are interrelated. Therefore, we continuously evaluate rate and occupancy in each community to find the optimal balance so that we can benefit from our increasing capacity and anticipated future occupancy increases. Although our business is primarily needs-driven, we believe that our occupancy growth has been slowed due to slow economic growth in the United States, as some seniors and their families have postponed moves for financial reasons, and we believe that high unemployment has enabled family members and others to provide home care for seniors.

Revenues from government reimbursement programs, which are the federal Medicare and state Medicaid programs, represented 19.6% of our consolidated community and ancillary revenues for 2013 compared to 13.9% in 2012 and 12.8% for 2011. The increase in government reimbursed revenues is primarily due to our acquisition of NOC in November 2012, as NOC's revenues are almost all from Medicare. Future changes in revenues from Medicare and Medicaid programs in our existing communities will depend upon factors that include resident mix, levels of acuity among our residents, overall occupancy and government reimbursement rates.

There continue to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. For example, on April 1, 2013, the mandated 2.0% reduction in Medicare payments under the Budget Control Act of 2011 went into effect. These cuts cannot be offset through higher co-pays or other charges to patients. Although we can offset a portion of Medicare cuts through targeted expense reductions, the expense reductions did not fully offset the revenue decrease.

In 2013, the Centers for Medicare & Medicaid Services ("CMS") issued a rule to update Medicare payment rates for home health agencies. The rule results in rebasing adjustments over a four-year period beginning in 2014. CMS estimates that net payments to home health agencies will decrease by approximately 1.5% in 2014.

We also earn management fee revenues by managing certain communities for third parties, including communities owned by related parties and by joint ventures in which we have an ownership interest. The majority of our management agreements provide for fees equal to 5.0% of gross collected revenues.

In addition to our monthly management fee, we receive reimbursement for operating expenses of managed communities. Reimbursed operating expenses for which the Company is the primary obligor are reported as costs incurred on behalf of managed communities and included in total operating expense in our consolidated statements of operations. A corresponding amount of revenue is recognized in the same period in which the expense is incurred and the Company is due reimbursement.

As a result of the HCP Transaction, the number of communities managed by Emeritus for others was reduced significantly in 2012 and early 2013 as 142 communities became part of our Consolidated Portfolio, as indicated above. Therefore, there has been a significant reduction in reimbursed costs incurred on behalf of managed communities in 2013, as well as in management fee revenue.

Same Community Portfolio Analysis

Of the 497 communities included in our Consolidated Portfolio as of December 31, 2013, we include 319 communities in our Same Community Portfolio. Our Same Community Portfolio consists of consolidated communities that we have continuously operated since January 1, 2012, and does not include properties where new expansion projects were opened during the comparable periods, communities in which we substantially changed the service category offered, or communities accounted for as discontinued operations.

Selected data from our Same Community Portfolio is as follows:

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| | Year Ended December 31, | | | |
|---|-------------------------|-------------------|-------------------|-----------------------------|
| | 2013 | 2012 | \$ Change | % Change ^{(a) (b)} |
| (in thousands, except percentages) | | | | |
| Community revenue | \$ 1,285,206 | \$ 1,265,865 | \$ 19,341 | 1.5 % |
| Community operations expense | (862,254) | (838,607) | (23,647) | (2.8)% |
| Community operating income | <u>\$ 422,952</u> | <u>\$ 427,258</u> | <u>\$ (4,306)</u> | <u>(1.0)%</u> |
| Average monthly revenue per occupied unit | \$ 4,246 | \$ 4,180 | \$ 66 | 1.6 % |
| Average occupancy rate | 86.9% | 87.0% | | (0.1) |

(a) "N/M" indicates percentages that are not meaningful in this analysis. Applies to all subsequent tables in this section.

(b) "ppt" refers to percentage points. Applies to all subsequent tables in this section.

Revenues from our Same Community Portfolio represented 73.1% of our total community revenue for 2013. The \$19.3 million increase in same community revenues was due to improvements in average revenue per occupied unit.

The \$23.6 million increase in operating expense from the Same Community Portfolio was primarily due to increases in salaries and wages, professional liability insurance, marketing, utilities and supplies expenses, offset somewhat by lower employee health insurance and bad debt expense.

For purposes of analyzing our results of operations for 2012 compared to 2011, we define our Same Community Portfolio 2012 as 293 consolidated communities that we continuously operated from January 1, 2011 to December 31, 2012. Selected data from our Same Community Portfolio 2012 is as follows:

| | Year Ended December 31, | | | |
|---|-------------------------|-------------------|------------------|--------------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Community revenue | \$ 1,169,156 | \$ 1,149,620 | \$ 19,536 | 1.7 % |
| Community operations expense | (772,571) | (766,159) | (6,412) | (0.8)% |
| Community operating income | <u>\$ 396,585</u> | <u>\$ 383,461</u> | <u>\$ 13,124</u> | <u>3.4 %</u> |
| Average monthly revenue per occupied unit | \$ 4,159 | \$ 4,099 | \$ 60 | 1.5 % |
| Average occupancy rate | 87.1% | 86.9% | | 0.2 ppt |

Revenues from our Same Community Portfolio 2012 represented 85.3% of our total community revenue for the year ended December 31, 2012.

Of the \$19.5 million increase in same community revenues, \$16.8 million was due to improvements in average revenue per occupied unit and \$2.7 million was due to improved occupancy.

The \$6.4 million increase in community operating expenses from the Same Community Portfolio 2012 was primarily due to increases in employee recruiting and training, food and supplies, skilled nursing contracted services, professional liability insurance, and other expenses. Salaries and benefits decreased 0.3% due primarily to employee health insurance savings that resulted from our change to a more efficient network. Salaries and wages on a per-resident-day basis decreased by 0.67%.

Consolidated Results of Operations: 2013 Compared to 2012

Net Loss Attributable to Emeritus Corporation Common Shareholders

We reported a net loss attributable to Emeritus common shareholders of \$152.6 million for 2013, compared to a net loss of \$84.8 million for 2012, as discussed below. As further described in the section *Liquidity and Capital Resources* below, the

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Company has incurred significant losses since its inception, but has generated annual positive cash flow from operating activities since 2001.

Operating income from continuing operations increased by \$44.7 million to \$142.4 million in 2013 compared to 2012. The increase in operating income was primarily the result of net community acquisitions during 2013 and 2012 and the acquisition of NOC in November 2012.

The \$67.7 million increase in net loss attributable to Emeritus common shareholders was due primarily to increases in other net non-operating expenses, partially offset by the increase in operating income of \$44.7 million. Interest expense increased by \$110.4 million primarily as a result of capital lease treatment of the 133 HCP Leased Communities that we acquired in the fourth quarter of 2012. We record interest expense on capital lease obligations based on our estimated incremental borrowing rate, which for the HCP Leased Communities results in interest expense that exceeds the amount of the lease payments in the early years of the lease. Therefore, interest expense for the year ended December 31, 2013 includes noncash interest expense of \$32.5 million. In addition, loss from discontinued operations increased by \$3.4 million and impairments of assets not in discontinued operations increased by \$6.1 million.

Summary of Activity

A summary of activity during 2013 compared to 2012 is as follows:

- Total operating revenues increased \$392.5 million, or 25.0%, to \$2.0 billion from \$1.6 billion for the prior-year period, due primarily to acquisitions in the fourth quarter of 2012.
- Operating income from continuing operations increased \$44.7 million to \$142.4 million from \$97.7 million for the prior-year period. Our net loss attributable to Emeritus Corporation common shareholders was \$152.6 million compared to \$84.8 million for the prior-year period.
- Average occupancy of the Consolidated Portfolio increased to 87.1% from 86.8% for the prior-year period.
- Average rate per occupied unit decreased 3.1% to \$4,000 from \$4,127 for the prior-year period. This is primarily due to the acquisition of communities in the HCP Transaction in the fourth quarter of 2012, which had lower rates than our legacy communities, and to the acquisition of the Merrill Gardens Communities in the third quarter of 2013, which have a higher proportion of independent living units with lower rates than assisted living units.
- Net cash provided by operating activities was \$98.2 million compared to \$116.6 million for the prior-year period.

The details of each of the components of net loss attributable to Emeritus common shareholders are set forth below.

Total Operating Revenues:

| | Year Ended December 31, | | | |
|--|-------------------------|---------------------|-------------------|---------------|
| | 2013 | 2012 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Same Community Portfolio | \$ 1,285,206 | \$ 1,265,865 | \$ 19,341 | 1.5 % |
| Acquisitions, dispositions, development and expansion | 471,364 | 80,934 | 390,430 | N/M |
| Ancillary services | 168,762 | 22,111 | 146,651 | N/M |
| Unallocated community revenue (a) | 1,739 | 1,109 | 630 | 56.8 % |
| Community and ancillary services revenue | 1,927,071 | 1,370,019 | 557,052 | 40.7 % |
| Management fees | 2,650 | 18,009 | (15,359) | N/M |
| Reimbursed costs incurred on behalf of managed communities | 30,897 | 180,048 | (149,151) | N/M |
| Total operating revenues | <u>\$ 1,960,618</u> | <u>\$ 1,568,076</u> | <u>\$ 392,542</u> | <u>25.0 %</u> |
| Average monthly revenue per occupied unit | \$ 4,000 | \$ 4,127 | \$ (127) | (3.1) % |
| Average occupancy rate | 87.1% | 86.8% | | — ppt |

(a) Comprised primarily of deferred move-in fees.

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As further described in *Same Community Portfolio Analysis* above, our Same Community Portfolio consists of those communities that we have continuously operated since January 1, 2012, net of dispositions.

The increase of \$19.3 million from the 319 Same Community Portfolio was due to improvements in average revenue per occupied unit.

Revenues from acquisitions, developments and expansions, which are derived from any communities that we began operating since January 1, 2012 (net of dispositions), increased by \$390.4 million, due primarily to the HCP Transaction as well as the September 1, 2013 lease acquisition of the 38 Merrill Gardens Communities.

The increase in ancillary services revenue was the result of our acquisition of NOC in November 2012.

The decrease in management fees and reimbursed costs incurred on behalf of managed communities is the result of the HCP Transaction, in which 142 communities that were previously owned by the Sunwest JV and managed by us are now part of our Consolidated Portfolio as leased and owned properties.

Community and Ancillary Services Operating Expense:

| | Year Ended December 31, | | | |
|--|------------------------------------|-------------------|-------------------|---------------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Same Community Portfolio | \$ 862,254 | \$ 838,607 | \$ 23,647 | 2.8 % |
| Acquisitions, dispositions, development, and expansion | 309,688 | 56,063 | 253,625 | N/M |
| Ancillary services | 132,088 | 16,653 | 115,435 | N/M |
| Unallocated community expenses | 18,611 | 8,312 | 10,299 | 123.9 % |
| Community operations and ancillary services | <u>\$ 1,322,641</u> | <u>\$ 919,635</u> | <u>\$ 403,006</u> | <u>43.8 %</u> |
| As a percentage of total operating revenues | 67.5% | 58.6% | | — ppt |

Community operating expense represents direct costs incurred to operate the communities and includes costs such as payroll and benefits, resident activities, marketing, housekeeping, food service, facility maintenance, insurance, utilities, taxes, and licenses.

Community operating expense in our Same Community Portfolio increased by \$23.6 million, due primarily to increases in salaries and wages, professional liability insurance, marketing, utilities and supplies expenses, offset somewhat by lower employee health insurance and bad debt expense. We focus on providing the appropriate level of care at our communities, while also pursuing overall expense efficiencies.

Expenses related to acquisitions, developments and expansions, which are derived from any communities that we began operating since January 1, 2012 (net of dispositions), increased by \$253.6 million, due primarily to the HCP Transaction as well as the September 1, 2013 lease acquisition of the 38 Merrill Gardens Communities.

Ancillary services expense represents primarily the operating expenses incurred by NOC, and the increase was the result of our acquisition of NOC in November 2012.

Unallocated community expenses primarily represent accrued liability adjustments for workers' compensation insurance and professional and general liability insurance. We periodically adjust our estimated self-insurance liabilities based on actuarial projected losses, representing our revised estimates of the ultimate exposure under the Company's self-insurance programs. During 2013, we recorded \$16.1 million in expenses for professional and general self-insurance for changes in estimates of open prior-year claims exposure, including an unfavorable jury verdict for such items, while during 2012 we recorded \$4.5 million in such expenses. These changes in estimates were based on claims experience and actuarial valuation reports. This contributed \$11.6 million to the year-over-year increase. Additionally, we recorded expenses of \$3.3 million during 2013, as compared to \$1.4 million during 2012, for prior-year workers' compensation claims exposure based upon actuarial valuation reports.

General and Administrative Expense:

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| | Year Ended December 31, | | | |
|---|------------------------------------|-----------|-----------|-----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Senior living | \$ 101,402 | \$ 93,452 | \$ 7,950 | 8.5 % |
| Ancillary services | 15,661 | 2,173 | 13,488 | N/M |
| General and administrative | \$ 117,063 | \$ 95,625 | \$ 21,438 | 22.4 % |
| As a percentage of total operating revenues | 6.0% | 6.1% | | (0.1) ppt |

The increase in general and administrative expenses attributable to our senior living operations primarily reflects increases in employee compensation, including noncash stock compensation expense, transition costs related to the integration of the Merrill Gardens Communities and professional fees. Ancillary services represents primarily the general and administrative expenses incurred by NOC.

Senior living general and administrative expense as a percentage of community operating revenues for our Operated Portfolio was 5.6% and 5.5% (4.8% in both periods excluding stock compensation expense) for 2013 and 2012, respectively. We focus on overhead expense efficiencies, while ensuring adequate infrastructure to support our operational needs.

We computed these percentages as follows:

| | Year Ended December 31, | |
|---|------------------------------------|--------------|
| | 2013 | 2012 |
| | (in thousands, except percentages) | |
| Senior living general and administrative expenses | \$ 101,402 | \$ 93,452 |
| Sources of revenue: | | |
| Owned and leased | \$ 1,758,309 | \$ 1,347,908 |
| Managed | 59,364 | 364,615 |
| Total revenue for all communities in our Operated Portfolio | \$ 1,817,673 | \$ 1,712,523 |
| General and administrative expenses as a percent of all Operated Portfolio revenue | 5.6% | 5.5% |
| General and administrative expenses excluding stock-based compensation as a percent of Operated Portfolio revenue | 4.8% | 4.8% |

Transaction Costs

| | Year Ended December 31, | | | |
|---|-------------------------|----------|-----------|-----------|
| | 2013 | 2012 | \$ Change | % Change |
| Transaction costs | \$ 5,737 | \$ 5,510 | \$ 227 | 4.1 % |
| As a percentage of total operating revenues | 0.3% | 0.4% | | (0.1) ppt |

Transaction costs primarily represent professional fees, due diligence expenses and other out-of-pocket costs related to prospective and certain completed purchases accounted for as business combinations. Transaction costs in 2013 include \$3.0 million in payments for our purchase of rights related to two communities included in a cash flow sharing agreement we have with Mr. Baty (see Note 8, *Related-Party Agreements*). Transaction costs in 2012 also include \$1.7 million in internal incentive compensation attributable to completing fourth quarter 2012 transactions.

Impairments of Long-Lived Assets

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| | Year Ended December 31, | | | |
|---|------------------------------------|----------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Impairments of long-lived assets | \$ 8,227 | \$ 2,135 | \$ 6,092 | 285.3 % |
| As a percentage of total operating revenues | 0.4% | 0.1% | | 0.3 ppt |

In 2013, we recorded impairment losses related to two communities when we determined that their estimated future cash flows will be insufficient to recover the carrying values. We continue to operate these communities. In 2012, we recorded impairment charges related to two parcels of undeveloped land. See Note 14, *Fair Value Disclosures*.

Depreciation and Amortization Expense:

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Depreciation and amortization | \$ 181,483 | \$ 140,629 | \$ 40,854 | 29.1 % |
| As a percentage of total operating revenues | 9.3% | 9.0% | | 0.3 ppt |

The increase in depreciation and amortization expense represents an increase in depreciation expense of \$48.8 million, net of a decrease in amortization expense of \$8.0 million. The increased depreciation expense is due to the addition of new communities to our Consolidated Portfolio, including the 142 communities in the HCP Transaction that were added in the fourth quarter of 2012 and early 2013, as well as depreciation on capital improvements to our existing communities. The decrease in amortization expense is primarily the result of resident contract intangible assets acquired in business combinations becoming fully amortized.

Lease Expense:

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Operating lease expense | \$ 142,498 | \$ 114,382 | \$ 28,116 | 24.6 % |
| Above/below market rent amortization | 4,930 | 6,299 | (1,369) | (21.7)% |
| Deferred straight-line rent amortization | 4,788 | 6,080 | (1,292) | (21.3)% |
| Community leases | \$ 152,216 | \$ 126,761 | \$ 25,455 | 20.1 % |
| As a percentage of total operating revenues | 7.8% | 8.1% | | -0.3 ppt |

The increase in total lease expense is primarily due to the new operating leases of the 38 Merrill Garden Communities commencing on September 1, 2013, as well as rent escalators on existing leases and office lease expense recorded by NOC. We leased 116 communities under operating leases as of December 31, 2013 and 79 communities as of December 31, 2012.

Costs Incurred on Behalf of Managed Communities:

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|--------------|-----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Costs incurred on behalf of managed communities | \$ 30,897 | \$ 180,048 | \$ (149,151) | N/M |
| As a percentage of total operating revenues | 1.6% | 11.5% | | (9.9) ppt |

The decrease in costs incurred on behalf of managed communities was due primarily to the HCP Transaction, which significantly reduced the number of communities that we manage for third parties.

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Interest Expense:

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|------------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Interest expense | \$ 287,389 | \$ 176,945 | \$ 110,444 | 62.4 % |
| As a percentage of total operating revenues | 14.7% | 11.3% | | 3.4 ppt |

The increase in interest expense was due primarily to interest on the financing leases and debt added in the fourth quarter of 2012 in the HCP Transaction, partially offset by decreases related to community dispositions and repayment of certain high-rate notes payable in 2013.

Change in Fair Value of Derivative Financial Instruments

| | Year Ended December 31, | | | |
|--|------------------------------------|----------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Change in fair value of derivative instruments | \$ (6) | \$ (948) | \$ 942 | N/M |
| As a percentage of total operating revenues | — % | (0.1)% | | 0.1 ppt |

The noncash expense in 2013 and 2012 represents changes in the fair value of certain interest rate caps.

Net Equity Earnings or Losses for Unconsolidated Joint Ventures

| | Year Ended December 31, | | | |
|---|------------------------------------|----------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Net equity losses for unconsolidated joint ventures | \$ (125) | \$ (576) | \$ 451 | N/M |
| As a percentage of total operating revenues | — | — % | | — ppt |

The equity losses in 2013 are comprised primarily of net equity losses from our joint ventures with affiliates of the Wegman family ("Wegman"). The equity losses in 2012 are comprised primarily of equity losses of \$364,000 from the Sunwest JV and equity losses of \$212,000 from our joint ventures with Wegman.

In 2012, the Sunwest JV recognized a gain on the sale of communities in connection with the HCP Transaction. As discussed in Note 4, *Acquisitions and Other Significant Transactions—2012 HCP Transaction*, Emeritus did not recognize its share of this gain, but rather deferred it as part of the financing lease obligation.

For more information about our joint ventures, including summary operating data, see Note 2. *Investments in Unconsolidated Joint Ventures*.

Other, net

| | Year Ended December 31, | | | |
|---|------------------------------------|----------|-----------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Other, net | \$ 3,473 | \$ 1,800 | \$ 1,673 | 92.9 % |
| As a percentage of total operating revenues | 0.2% | 0.1% | | 0.1 ppt |

Other, net for 2013 consisted primarily of amortization of deferred gains of \$957,000, resident late fees of \$707,000, net gains on the sale of assets of \$662,000 and a \$1.0 million gain on our investment in a limited partnership doing business in China.

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See Note 2, *Investments in Unconsolidated Joint Ventures—China Limited Partnership*. Other, net for 2012 consisted primarily of amortization of deferred gains of \$1.0 million and resident late fee finance charges of \$612,000.

Income Taxes:

| | Year Ended December 31, | | | |
|---|------------------------------------|----------|------------|----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Benefit of (provision for) income taxes | \$ (639) | \$ 1,158 | \$ (1,797) | (155.2)% |
| As a percentage of total operating revenues | — % | 0.1% | | — ppt |

The income tax provision in 2013 represents state income and franchise tax expense, offset by a federal income tax benefit related to our 2012 purchase of NOC.

The 2012 benefit consists of a deferred tax benefit arising from our purchase of NOC and subsequent release of the deferred tax valuation allowance for certain indefinite lived assets, offset in part by state income tax expense of \$3.0 million resulting from the taxable gain on the sale of our investment in the Sunwest JV in connection with the HCP Transaction. The remaining expense represents estimated state income and franchise tax liabilities.

Loss from Discontinued Operations:

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|------------|-----------|
| | 2013 | 2012 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Loss from discontinued operations | \$ (11,100) | \$ (7,705) | \$ (3,395) | (44.1)% |
| As a percentage of total operating revenues | (0.6)% | (0.5)% | | (0.1) ppt |

Loss from discontinued operations for 2013 primarily consists of impairment losses on nine communities that were sold or held for sale during the period (See Note 13, *Discontinued Operations* and Note 14, *Fair Value Disclosures—Impairment of Long-Lived Assets*).

The loss from discontinued operations for 2012 consisted primarily of losses on four communities sold during the period.

Consolidated Results of Operations: 2012 Compared to 2011

Net Loss Attributable to Emeritus Corporation Common Shareholders:

We reported a net loss attributable to Emeritus Corporation common shareholders of \$84.8 million for 2012 compared to \$71.9 million for 2011. As discussed below in the section *Liquidity and Capital Resources*, the Company has incurred significant losses since its inception but has generated positive cash flow from operating activities since 2001.

Operating income from continuing operations increased by \$36.0 million to \$97.7 million in 2012. The increase in operating income is primarily the result of net community acquisitions during 2012, the acquisition of NOC in November 2012, improvements in the Same Community Portfolio, and overall expense controls.

The \$12.9 million increase in net loss is due primarily to the increase in operating income of \$36.0 million being offset by increases in other net nonoperating expenses, which in 2011 included a \$42.1 million gain on the acquisition of 24 communities from our prior joint venture with Blackstone (the "Blackstone JV Communities"). Interest expense increased by \$19.7 million as a result of the June 2011 24-community acquisition and capital lease treatment of the 133 HCP Leased Communities in the fourth quarter of 2012. Loss from discontinued operations decreased by \$13.9 million between the periods.

A summary of activity during 2012 compared to 2011 is as follows:

- Total operating revenues increased \$95.5 million, or 6.5%, to \$1.6 billion for 2012 from \$1.5 billion for 2011.

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- Operating income from continuing operations increased \$36.0 million, or 58.4%, to \$97.7 million for 2012.
- Net loss attributable to Emeritus Corporation common shareholders was \$84.8 million for 2012 compared to \$71.9 million for 2011.
- Average occupancy increased to 86.8% for 2012 from 86.3% for 2011.
- Average rate per occupied unit increased 1.6% to \$4,127 for 2012 from \$4,063 for 2011.
- Net cash provided by operating activities was \$116.6 million for 2012 compared to \$74.1 million for 2011.
- During 2012, we added 138 new communities to our Consolidated Portfolio and disposed of five.

The details of each of the components of net loss are set forth below.

Total Operating Revenues

| | Year Ended December 31, | | | |
|--|-------------------------|---------------------|------------------|---------------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Same Community Portfolio | \$ 1,169,156 | \$ 1,149,620 | \$ 19,536 | 1.7 % |
| Acquisitions, dispositions, development and expansion | 177,643 | 86,067 | 91,576 | 106.4 % |
| Ancillary services | 22,111 | 580 | 21,531 | N/M |
| Unallocated community revenue ^(a) | 1,109 | (2,602) | 3,711 | 142.6 % |
| Community revenue | <u>1,370,019</u> | <u>1,233,665</u> | <u>136,354</u> | <u>11.1 %</u> |
| Management fees | 18,009 | 21,105 | (3,096) | (14.7)% |
| Reimbursed costs incurred on behalf of managed communities | 180,048 | 217,853 | (37,805) | (17.4)% |
| Total operating revenues | <u>\$ 1,568,076</u> | <u>\$ 1,472,623</u> | <u>\$ 95,453</u> | <u>6.5 %</u> |
| Average monthly revenue per occupied unit | \$ 4,127 | \$ 4,063 | \$ 64 | 1.6 % |
| Average occupancy rate | 86.8% | 86.3% | | 0.5 ppt |

(a) Comprised primarily of deferred move-in fees.

The increase of \$19.5 million from the 293 Same Community Portfolio 2012 consisted of \$16.8 million in improvement in the rates we charge our residents and an increase in occupancy levels of \$2.7 million. As further described in the section *Same Community Comparison* above, our Same Community Portfolio 2012 consists of those consolidated communities that we continuously operated from January 1, 2011 to December 31, 2012, net of dispositions. Revenues from acquisitions, developments and expansions, which are derived from any communities that we began operating since January 1, 2011 (net of dispositions), increased by \$91.6 million, due primarily to the HCP Transaction and our June 1, 2011 acquisition of the 24 Blackstone JV Communities.

Ancillary services primarily represent the revenues generated by NOC, acquired in November 2012. The change in unallocated community revenue of \$3.7 million resulted primarily from an increase in resident move-in fees, which we recognize over the average resident length of stay.

The Sunwest JV, which commenced operations in August 2010, contributed \$16.1 million and \$18.0 million to management fee revenues in 2012 and 2011, respectively. The Blackstone JV contributed \$1.5 million to management fee revenues in the five-month period ended May 31, 2011. As described in Note 4, *Acquisitions and Other Significant Transactions—HCP Transaction and—2011 Blackstone JV Acquisition*, we consolidate communities that we previously managed for the Sunwest JV and the Blackstone JV and have included them in our Consolidated Portfolio effective on the respective acquisition and lease dates. In connection with these transactions, our management agreements were terminated. As of December 31, 2012, we continued to manage six communities for the Sunwest JV.

The decrease in reimbursed costs incurred on behalf of managed communities was due primarily to the aforementioned acquisitions of previously managed communities from the Sunwest JV and the Blackstone JV.

Community Operating Expense

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| | Year Ended December 31, | | | |
|---|-------------------------|-------------------|------------------|--------------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Same Community Portfolio | \$ 772,571 | \$ 766,159 | \$ 6,412 | 0.8 % |
| Acquisitions, dispositions, development and expansion | 122,099 | 63,364 | 58,735 | 92.7 % |
| Ancillary services | 16,653 | 292 | 16,361 | N/M |
| Unallocated community expenses | 8,312 | 17,352 | (9,040) | (52.1)% |
| Community operations | <u>\$ 919,635</u> | <u>\$ 847,167</u> | <u>\$ 72,468</u> | <u>8.6 %</u> |
| As a percentage of total operating revenues | 58.6% | 57.5% | | 1.1 ppt |

Community operating expense represents direct costs incurred to operate the communities and includes costs such as payroll and benefits, resident activities, marketing, housekeeping, food service, facility maintenance, insurance, utilities, taxes, and licenses.

Community operating expense in our Same Community Portfolio 2012 increased by \$6.4 million, as described above under *Same Community Portfolio*. We focus on providing the appropriate level of care at our communities, while also pursuing overall expense efficiencies. For example, in the first half of 2011, we implemented an improved labor hours tracking system, which we continued to use in 2012 and 2013.

Expenses related to acquisitions, developments and expansions, which are derived from any communities that we began operating since January 1, 2011 (net of dispositions), increased by \$58.7 million, due primarily to the HCP Transaction and our June 1, 2011 acquisition of the 24 Blackstone JV Communities.

Ancillary services primarily represents the operating expenses incurred by NOC.

Unallocated community expenses consist primarily of reserve adjustments for workers' compensation insurance and professional and general liability insurance. We periodically adjust our estimated self-insurance liabilities based on actuarial projected losses, representing our revised estimates of the Company's ultimate exposure under our self-insurance programs. During 2012, we recorded \$4.5 million in expenses for professional and general self-insurance for changes in estimates of open prior-year claims exposure, while during 2011 we recorded \$13.7 million in expenses for professional and general self-insurance for changes in estimates of open prior-year claims exposure, including an unfavorable jury verdict for such items. These changes in estimates were based on claims experience and actuarial valuation reports. This contributed \$9.2 million to the year-over-year decrease. Additionally, we recorded expenses of \$1.4 million during 2012, as compared to \$2.2 million during 2011, for prior-year workers' compensation claims exposure based upon actuarial valuation reports.

General and Administrative Expense

| | Year Ended December 31, | | | |
|---|-------------------------|------------------|-----------------|-------------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Senior living | \$ 93,452 | \$ 88,620 | \$ 4,832 | 5.5% |
| Ancillary services | 2,173 | 147 | 2,026 | N/M |
| General and administrative | <u>\$ 95,625</u> | <u>\$ 88,767</u> | <u>\$ 6,858</u> | <u>7.7%</u> |
| As a percentage of total operating revenues | 6.1% | 6.0% | | 0.1 ppt |

The increase in general and administrative expenses attributable to our senior living operations primarily reflects increases in employee compensation, including noncash stock compensation expense, and professional fees. Ancillary services primarily represents the general and administrative expenses incurred by NOC.

Senior living general and administrative expense as a percentage of community operating revenues for our Operated Portfolio was 5.5% for 2012 compared to 5.3% for 2011. We computed these percentages as follows:

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| | Year Ended December 31, | |
|--|------------------------------------|---------------------|
| | 2012 | 2011 |
| | (in thousands, except percentages) | |
| Senior living general and administrative expenses | \$ 93,452 | \$ 88,620 |
| Sources of revenue: | | |
| Owned and leased | \$ 1,347,908 | \$ 1,233,085 |
| Managed | 364,615 | 429,616 |
| Total revenue for all communities in our Operated Portfolio | <u>\$ 1,712,523</u> | <u>\$ 1,662,701</u> |
| General and administrative expenses as a percent of all sources of community revenue | 5.5% | 5.3% |
| General and administrative expenses less stock-based compensation as a percent of all sources of community revenue | 4.8% | 4.8% |

Transaction Costs

| | Year Ended December 31, | | | |
|---|------------------------------------|----------|------------|-----------|
| | 2012 | 2011 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Transaction costs | \$ 5,510 | \$ 9,826 | \$ (4,316) | (43.9)% |
| As a percentage of total operating revenues | 0.4% | 0.7% | | (0.3) ppt |

Transaction costs primarily represent professional fees, due diligence expenses and other out-of-pocket costs related to prospective and certain completed purchases accounted for as business combinations. Transaction costs in 2012 also include \$1.7 million in internal incentive compensation attributable to completing fourth quarter 2012 transactions. Transaction costs in 2011 include \$7.8 million in payments for our purchase of rights related to nine communities included in the cash flow sharing agreement we entered into with Mr. Baty (see Note 8, *Related-Party Agreements*) and \$1.2 million related to the acquisition of the Blackstone JV communities.

Impairment of Long-Lived Assets:

The impairment charge of \$2.1 million in 2012 represents the write-down to fair value of two parcels of undeveloped land (see Note 14, *Fair Value Disclosures—Impairment of Long-Lived Assets*).

Depreciation and Amortization Expense

| | Year Ended December 31, | | | |
|---|------------------------------------|------------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Depreciation and amortization | \$ 140,629 | \$ 122,372 | \$ 18,257 | 14.9% |
| As a percentage of total operating revenues | 9.0% | 8.3% | | 0.7 ppt |

The increase in depreciation and amortization expense represents an increase in depreciation expense of \$15.2 million and an increase in amortization expense of \$3.0 million. The increased depreciation expense is due to the increase in the number of communities in our Consolidated Portfolio as well as depreciation on improvements to our existing communities. The increase in amortization expense is related to resident contract intangible assets acquired in business combinations, including the Blackstone JV Communities (see Note 4, *Acquisitions and Other Significant Transactions—2011 Blackstone JV Acquisition*).

Community Lease Expense

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| | Year Ended December 31, | | | |
|---|-------------------------|------------|-----------|-----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Operating lease expense | \$ 114,382 | \$ 108,627 | \$ 5,755 | 5.3 % |
| Above/below market rent amortization | 6,299 | 7,532 | (1,233) | (16.4)% |
| Deferred straight-line rent amortization | 6,080 | 8,792 | (2,712) | (30.8)% |
| Community leases | \$ 126,761 | \$ 124,951 | \$ 1,810 | 1.4 % |
| As a percentage of total operating revenues | 8.1% | 8.5% | | (0.4) ppt |

The increase in total community lease expense reflects an increase in cash operating lease expense due to rent escalators, which was substantially offset by deferred straight-line rent amortization. We leased 79 communities under operating leases as of December 31, 2012 and 80 communities as of December 31, 2011.

Costs Incurred on Behalf of Managed Communities

| | Year Ended December 31, | | | |
|---|-------------------------|------------|-------------|-----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Costs incurred on behalf of managed communities | \$ 180,048 | \$ 217,853 | \$ (37,805) | (17.4)% |
| As a percentage of total operating revenues | 11.5% | 14.8% | | (3.3) ppt |

The decrease in costs incurred on behalf of managed communities was due primarily to the aforementioned acquisitions of previously managed communities from the Sunwest JV and the Blackstone JV.

Interest Expense

| | Year Ended December 31, | | | |
|---|-------------------------|------------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Interest expense | \$ 176,945 | \$ 157,262 | \$ 19,683 | 12.5% |
| As a percentage of total operating revenues | 11.3% | 10.7% | | 0.6 ppt |

The increase in interest expense was due primarily to interest on the financing leases acquired in the HCP Transaction as well as a full year's interest expense on debt incurred in June 2011 to purchase the Blackstone JV communities.

Change in Fair Value of Derivative Financial Instruments

| | Year Ended December 31, | | | |
|--|-------------------------|----------|------------|-----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Change in fair value of derivative financial instruments | \$ (948) | \$ 3,081 | \$ (4,029) | N/M |
| As a percentage of total operating revenues | (0.1)% | 0.2% | | (0.3) ppt |

The noncash expense in 2012 represents changes in the fair value of our interest rate cap purchased in October 2011. The amount in 2011 represents noncash income resulting from changes in the fair value of the interest rate cap and an interest rate swap that expired on January 2, 2012. See Note 14, *Fair Value Measurements*.

Net Equity Earnings or Losses for Unconsolidated Joint Ventures

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| | Year Ended December 31, | | | |
|---|-------------------------|------------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Net equity losses for unconsolidated joint ventures | \$ (576) | \$ (3,081) | \$ 2,505 | N/M |
| As a percentage of total operating revenues | — | (0.2)% | | 0.2 ppt |

The equity losses in 2012 are comprised primarily of equity losses of \$364,000 from the Sunwest JV and equity losses of \$212,000 from our joint ventures with Wegman. The equity losses in the 2011 period are comprised primarily of equity losses of \$3.8 million from the Sunwest JV and equity earnings of \$921,000 from the Blackstone JV. We acquired the 24 communities that we previously managed for the Blackstone JV and have included them in our Consolidated Portfolio effective on the June 1, 2011 acquisition date.

In 2012, the Sunwest JV recognized a gain on the sale of communities in connection with the HCP Transaction. As discussed in Note 4, *Acquisitions and Other Significant Transactions—2012 HCP Transaction*, Emeritus did not recognize its share of this gain, but rather deferred it as part of the financing lease obligation.

For more information about our joint ventures, including summary operating data, see Note 2. *Investments in Unconsolidated Joint Ventures*.

Acquisition Gain

The acquisition gain recorded in 2011 resulted from the remeasurement at fair value of our previously existing equity investment in the Blackstone JV when we acquired Blackstone's equity interest in June 2011. See Note 4, *Acquisitions and Other Significant Transactions—2011 Blackstone JV Acquisition* for further detail.

Other, net

| | Year Ended December 31, | | | |
|---|-------------------------|----------|------------|-----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Other, net | \$ 1,800 | \$ 3,362 | \$ (1,562) | (46.5)% |
| As a percentage of total operating revenues | 0.1% | 0.2% | | (0.1) ppt |

Other, net during 2012 consisted primarily of amortization of deferred gains of \$1.0 million and resident late fee finance charges of \$612,000.

Other, net during 2011 consisted primarily of a gain on the sale of investment securities of \$1.6 million, amortization of deferred gains of \$1.1 million and resident late fee finance charges of \$583,000.

Income Taxes

| | Year Ended December 31, | | | |
|---|-------------------------|------------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| (in thousands, except percentages) | | | | |
| Benefit of (provision for) income taxes | \$ 1,158 | \$ (1,019) | \$ 2,177 | 213.6% |
| As a percentage of total operating revenues | 0.1% | (0.1)% | | 0.2 ppt |

The 2012 benefit consists of a deferred tax benefit arising from our purchase of NOC and subsequent relief of the deferred tax valuation allowance for certain indefinite-lived assets, offset in part by state income tax expense of \$3.0 million resulting from the taxable gain on the sale of our investment in the Sunwest JV in connection with the HCP Transaction.

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The remaining expense for 2012 and for 2011 represents estimated state income and franchise tax liabilities.

Loss from Discontinued Operations

| | Year Ended December 31, | | | |
|---|------------------------------------|-------------|-----------|----------|
| | 2012 | 2011 | \$ Change | % Change |
| | (in thousands, except percentages) | | | |
| Loss from discontinued operations | \$ (7,705) | \$ (21,570) | \$ 13,865 | 64.3% |
| As a percentage of total operating revenues | (0.5)% | (1.5)% | | 1.0 ppt |

Loss from discontinued operations in 2012 consisted primarily of losses on four communities sold during the period. Loss from discontinued operations in 2011 represents impairment charges and net losses on the sales of eight communities. See Note 13, *Discontinued Operations* and Note 14, *Fair Value Disclosures—Impairment of Long-Lived Assets*.

Liquidity and Capital Resources

As of December 31, 2013, we had cash and cash equivalents on hand of \$76.7 million, compared to \$59.8 million at December 31, 2012.

The Company has incurred significant operating losses since its inception, and we had working capital deficits of \$137.6 million and \$55.5 million as of December 31, 2013 and December 31, 2012, respectively. Due to the nature of our business, it is not unusual to operate in the position of a working capital deficit because we collect revenues much more quickly, often in advance, than we are required to pay obligations, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations result in a very low level of current assets primarily stemming from our deployment of cash to pursue strategic business development opportunities or to pay down long-term liabilities. Along those lines, the working capital deficit as of December 31, 2013 included a \$49.2 million deferred tax asset and, as part of current liabilities, \$56.6 million of deferred revenue and unearned rental income. We do not expect the level of current liabilities to change from period to period in such a way as to require the use of significant cash, except for \$106.7 million in balloon payments of principal on long-term debt maturing during the next 12 months, which is included in current portion of long-term debt as of December 31, 2013. We intend to refinance, extend, or retire these obligations prior to their maturities. There can be no assurance that we will be able to obtain such refinancing or be able to retire the obligations.

Also included in the current portion of long-term debt is \$14.2 million related to communities held for sale as of December 31, 2013 (see Note 13, *Discontinued Operations*). This debt will be repaid with the proceeds from the sales.

Sources and Uses of Cash

We expect to use our cash to invest in our core business as well as, to the extent permitted under the Merger Agreement, other new business opportunities related to our core business. As discussed above, we expect to refinance or extend our balloon payments of debt principal in the next 12 months; however, if we are unable to do so, we believe the Company would be able to generate sufficient cash flows to support its operating, investing and financing activities for at least the next 12 months by extending payment terms to suppliers, reducing or delaying capital expenditures and operating expenses, selling communities or a combination thereof. In connection with Emeritus' guarantees of certain debt and lease agreements, we are required at all times to maintain a minimum \$20.0 million balance of unencumbered liquid assets, defined as cash, cash equivalents and/or publicly traded/quoted marketable securities. As a result, \$20.0 million of our cash on hand is not available to fund operations and we take this into account in our cash management activities.

We may use our available cash resources for acquisitions and other investments in support of our growth strategy. Significant acquisitions and/or other new business opportunities will likely require additional outside funding. We do not plan to pay cash dividends to our common shareholders in the foreseeable future.

Other than normal operating expenses and debt payments, we expect that cash requirements for the next 12 months will consist primarily of capital expenditures. We expect to invest in capital expenditures both to preserve and maintain our communities as well as to reposition or otherwise invest in return-generating projects. We also expect to invest in systems and technology in the communities and in our overall support infrastructure.

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The following is a summary of cash flow information for the periods indicated (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| Net cash provided by operating activities | \$ 98,189 | \$ 116,558 | \$ 74,102 |
| Net cash used in investing activities | 19,908 | (37,561) | (172,660) |
| Net cash (used in) provided by financing activities | (101,220) | (62,872) | 32,104 |
| Net increase (decrease) in cash and cash equivalents | 16,877 | 16,125 | (66,454) |
| Cash and cash equivalents at the beginning of the year | 59,795 | 43,670 | 110,124 |
| Cash and cash equivalents at the end of the year | <u>\$ 76,672</u> | <u>\$ 59,795</u> | <u>\$ 43,670</u> |

For the years ended December 31, 2013, 2012 and 2011 and in each of the previous years since 2001, we reported positive net cash from operating activities in our consolidated statements of cash flows. In 2013, cash provided by operating activities was \$98.2 million, compared to \$116.6 million in 2012, a decrease of \$18.4 million. In July 2013, we posted a bond in connection with our appeal of a jury verdict against the Company in a professional liability case (see Note 11, *Contingencies*). As a result, we made a cash deposit in the amount of \$20.9 million to collateralize the bond, which is included in net cash flows from operating activities.

Cash used in investing activities during 2013 included capital expenditures totaling \$68.4 million used to maintain and improve our communities, and acquisition related expenditures totaling \$6.7 million. Cash used for lease acquisition costs and other assets, net includes \$10.0 million for a lease termination fee in connection with the acquisition of the Merrill Gardens Communities in the third quarter. These expenditures were largely offset by \$64.3 million of distributions and expense reimbursements from affiliates and unconsolidated joint ventures, primarily the Sunwest JV, and \$42.2 million from the sale of communities. During 2012, we invested cash to acquire NOC and the Emeritus Nine Communities in the aggregate amount of \$103.8 million, as well as \$37.2 million for the purchase of property and equipment. The source of cash to purchase NOC and the Emeritus Nine Communities was primarily an \$89.7 million initial distribution from the Sunwest JV in connection with the HCP Transaction, as well as cash on hand. During 2012, we also received cash proceeds of \$15.6 million from the sale of communities.

In 2013, financing activities included \$43.0 million in net cash from the sale of stock and exercise of stock options, including \$31.3 million from the March 2013 public offering (conducted simultaneously with the secondary public offering described in Note 4, *Acquisitions and Other Significant Transactions—2013 Stock Offering*), and \$82.7 million in proceeds from long-term borrowings and financings, comprised primarily of \$50.0 million of proceeds from the NOC credit facility plus proceeds from mortgage refinancings. Cash paid for debt and capital lease principal payments totaled \$219.9 million, including \$88.1 million paid to HCN and Ventas for early retirement of debt. Additionally, we paid net distributions of \$8.8 million to our noncontrolling interest holders, primarily consisting of a \$3.9 million distribution to the Minority Members of NOC from proceeds of the credit facility and an additional \$5.1 million related to our buyout of the Minority Members' equity interests. We used cash in financing activities during 2012 primarily for the repayment of long-term debt and lease obligations.

As of December 31, 2013, the Company had payment obligations for long-term debt and capital and financing leases due during the next 12 months totaling approximately \$186.6 million. During 2013, we refinanced or extended approximately \$48.0 million of long-term debt obligations.

Payment Commitments

The following table summarizes our contractual obligations as of December 31, 2013 (in thousands):

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| | Principal Due by Period | | | | |
|--|-------------------------|-------------------|-------------------|---------------------|----------------------|
| | Total | 1 year (a) | 2-3 years | 4-5 years | More than 5 years |
| Long-term debt, including current portion | \$ 1,498,231 | \$ 152,989 | \$ 274,519 | \$ 804,695 | \$ 266,028 |
| Capital and financing leases including current portion | 2,515,495 | 33,565 | 89,222 | 124,150 | 2,268,558 |
| Operating leases | 1,869,984 | 179,907 | 364,892 | 361,379 | 963,806 |
| Liability related to unrecognized tax benefits (b) | 104 | — | — | — | — |
| | <u>\$ 5,883,814</u> | <u>\$ 366,461</u> | <u>\$ 728,633</u> | <u>\$ 1,290,224</u> | <u>\$ 3,498,392</u> |

- (a) Represents all payments due within one year, including balloon payments described elsewhere in this Form 10-K.
(b) We have recognized total liabilities related to unrecognized tax benefits of \$104,000 as of December 31, 2013. The timing of payments related to these obligations is uncertain; however, we do not expect to pay any of this amount within the next year.

The following table summarizes interest on our contractual obligations as of December 31, 2013 (in thousands):

| | Interest Due by Period | | | | |
|---|------------------------|-------------------|-------------------|-------------------|----------------------|
| | Total | 1 year | 2-3 years | 4-5 years | More than 5 years |
| Long-term debt | \$ 364,561 | \$ 86,842 | \$ 153,284 | \$ 90,410 | \$ 34,025 |
| Capital and financing lease obligations | 4,402,406 | 161,979 | 327,228 | 326,143 | 3,587,056 |
| | <u>\$ 4,766,967</u> | <u>\$ 248,821</u> | <u>\$ 480,512</u> | <u>\$ 416,553</u> | <u>\$ 3,621,081</u> |

The amounts above do not include our indirect guarantee of the loan payable by one of our Wegman joint ventures ("Vestal"). Emeritus has a 50.0% ownership interest in Vestal which we account for as an unconsolidated equity method investment. As of December 31, 2013, the loan balance for Vestal was \$7.0 million with a variable interest rate at the LIBOR (floor of 1.5%) plus 4.0%. Wegman has provided an unconditional guarantee of payment to the lender and is indemnified by Emeritus through a separate agreement. In the event that we would be required to repay this loan, our share of the obligation would be 50.0%.

Financial Covenants and Cross-Defaults

Many of our debt instruments, leases and corporate guarantees contain financial covenants that require the Company to meet specified financial criteria as of the end of each reporting period. These financial covenants generally prescribe operating performance metrics such as debt or lease coverage ratios, operating income yields, fixed-charge coverage ratios and/or minimum occupancy requirements. Others are based on financial metrics such as minimum cash or net worth balances, or have material adverse change clauses. In the event of default, remedies available to the counterparties to these arrangements vary, but include the requirement to post a security deposit in specified amounts, acceleration of debt or lease payments, and/or the termination of the related lease agreements.

In addition, many of the lease and debt instruments contain cross-default provisions whereby a default under one obligation can cause a default under one or more other obligations. Accordingly, an event of default could have a material adverse effect on our financial condition if a lender or landlord exercised their rights under an event of default.

As of December 31, 2013, the Company had outstanding \$1.5 billion of mortgage debt and notes payable comprised of the following:

- Mortgage debt financed through Freddie Mac and Fannie Mae of approximately \$1.1 billion, or approximately 74.8% of our total debt outstanding. These obligations were incurred to facilitate community acquisitions over the past few years, were issued to single purpose entities (each an "SPE") and are secured by the assets of each SPE, which consist of the real and personal property and intangible assets of a single community. The debt is generally nonrecourse to the Company in that only the assets or common stock of each SPE are available to the lender in the event of default, with some limited exceptions. These debt obligations do not contain provisions requiring ongoing maintenance of specific financial covenants, but do contain typical events of default such as nonpayment

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of monetary obligations, failure to maintain insurance coverage, fraud and/or misrepresentation of facts, unauthorized sale or transfer of assets, and the institution of legal proceedings under bankruptcy. These debt instruments typically contain cross-default provisions, which are limited to other related loans provided by the specific lender. Remedies under an event of default include the acceleration of payment of the related obligations.

- Mortgage debt financed primarily through traditional financial lending institutions of approximately \$309.5 million, or approximately 20.7% of our total debt outstanding. These obligations were incurred to facilitate community acquisitions over the past few years, and were typically issued to, and secured by, the assets of each SPE, which consist of the real and personal property and intangible assets of a single community. The debt is generally recourse to the Company in that not only are the assets or common stock of each SPE available to the lender in the event of default, but the Company has guaranteed performance of each SPE's obligations under the mortgage. These debt obligations generally contain provisions requiring ongoing maintenance of specific financial covenants, such as debt service coverage ratios, operating income yields, occupancy requirements, and/or net operating income thresholds. Our guarantees generally contain requirements to maintain minimum cash and/or net worth balances. In addition, the mortgages contain other typical events of default such as nonpayment of monetary obligations, failure to maintain insurance coverage, fraud and/or misrepresentation of facts, unauthorized sale or transfer of assets, and the institution of legal proceedings under bankruptcy. These debt instruments may contain cross-default provisions, but are limited to other loans provided by the specific lender. Remedies under an event of default include the acceleration of payment of the related obligations.
- Mezzanine debt financing in the amount of \$21.4 million provided by real estate investment trusts (each a "REIT" and collectively, "REITs") to facilitate community acquisitions, and a \$46.3 million loan to NOC, which combined represents approximately 4.5% of our total debt outstanding. The mezzanine debt is secured by a leasehold mortgage and the NOC credit facility is secured by its personal property and stock. Performance under the NOC credit facility is guaranteed by the Company and includes a requirement to maintain a minimum debt service coverage ratio and cash and net worth balances. Typical events of default under these obligations include nonpayment of monetary obligations, events of default under related lease agreements, and the institution of legal proceedings under bankruptcy. Remedies under an event of default include the acceleration of payments of the related obligations.

As of December 31, 2013, we operated 311 communities under long-term lease arrangements, of which 286 were leased from publicly traded REITs. Of the 311 leased properties, 84 contain provisions requiring ongoing maintenance of specific financial covenants, such as rent coverage ratios. Other typical events of default under all of these leases include nonpayment of rents or other monetary obligations, events of default under related lease agreements, and the institution of legal proceedings under bankruptcy. Remedies in these events of default vary, but generally include the requirement to post a security deposit in specified amounts, acceleration of lease payments, and/or the termination of the related lease agreements. As of December 31, 2013, we were in violation of a financial covenant in one lease agreement covering four communities. We obtained a waiver from the landlord through December 31, 2013 and therefore are in compliance with this financial covenant.

Critical Accounting Policies and Use of Estimates

Critical accounting policies are those that we believe are both most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in our reporting materially different amounts under different conditions or using different assumptions.

We believe that our accounting policies regarding asset impairments, goodwill impairment, leases, self-insurance reserves and income taxes are the most critical in understanding the judgments involved in the preparation of our financial statements. Those financial statements reflect our revisions to such estimates in income in the period in which the facts that give rise to the revision became known. For a summary of all of our significant accounting policies, see Note 1, *Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies*.

Asset Impairments

When facts and circumstances indicate that the carrying values of long-lived assets may not be recoverable, we evaluate long-lived assets for impairment. We first compare the carrying value of the asset to the asset's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss based on

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the asset's estimated fair value. For community assets, the fair value of the assets is estimated using a discounted cash flow model based on future revenues and operating costs, using internal projections. For our investments in unconsolidated joint ventures, we determine whether there has been an other-than-temporary decline in the carrying value of the investment by using a discounted cash flow model to estimate the fair value of individual assets inside the joint venture. For our investments in marketable equity securities, we must make a judgment as to whether a decline in fair value is other-than-temporary. For other assets, we use the valuation approach that is appropriate given the relevant facts and circumstances.

Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting asset useful lives. Further, our ability to realize undiscounted cash flows in excess of the carrying values of our assets is affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions, and changes in operating performance. As we periodically reassess estimated future cash flows and asset fair values, changes in our estimates and assumptions may cause us to realize material impairment charges in the future.

Goodwill Impairment

We test goodwill for impairment on an annual basis, or more frequently if circumstances indicate that goodwill carrying values may exceed their fair values. We perform this evaluation at the reporting unit level. As of October 31, 2013 (the date we elected as our annual goodwill impairment test), Emeritus was comprised of three operating segments and reporting units, which are: (i) ancillary services, primarily NOC; (ii) the 133 HCP Leased Communities; and (iii) the legacy Emeritus communities. Goodwill has been allocated to each of these reporting units.

As part of our impairment testing, we first assess a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, and entity-specific factors such as strategies and financial performance when evaluating potential impairment for goodwill. If, after completing such assessment, it is determined that it is "more likely than not" that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test, whereby the first step is comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired and the second step of the test is not performed. The second step of the impairment test is performed when the carrying amount of the reporting unit exceeds the fair value, in which case the implied fair value of the reporting unit goodwill is compared with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Based on the results of our 2013 review, we qualitatively concluded that it was not more likely than not that the fair value of our reporting units was less than their respective carrying values. As of October 31, 2012, Emeritus was comprised of a single reporting unit and the fair value of our Company substantially exceeded its carrying value.

Our impairment loss assessment contains uncertainties because it requires us to apply judgment to estimate whether there has been a decline in the fair value of our reporting units, including estimating future cash flows, and if necessary, the fair value of our assets and liabilities. As we periodically perform this assessment, changes in our estimates and assumptions may cause us to realize material impairment charges in the future.

Leases

We determine whether to account for our leases as operating or capital leases or financing obligations, depending on the underlying terms. As of December 31, 2013, we operated 311 communities under long-term operating or capital leases or financing obligations. The determination of this classification under GAAP is complex and in certain situations requires a significant level of judgment. Our classification criteria is based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community, and certain other terms in the lease agreements.

Self-Insurance Reserves

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We use a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for certain risks, including workers' compensation, healthcare benefits, professional and general liability, property insurance, and director and officers' liability insurance (see Note 11, *Contingencies*).

We are self-insured for professional liability risk with respect to 267 of the 497 communities in our Consolidated Portfolio. The other 230 communities are insured with conventional indemnity policies. The liability for self-insured incurred known claims and incurred but not yet reported claims was \$36.1 million and \$25.8 million at December 31, 2013 and 2012 respectively. We believe that the range of reasonably possible losses as of December 31, 2013, based on sensitivity testing of the various underlying actuarial assumptions, is approximately \$34.5 million to \$52.4 million. The high end of the range reflects the potential for high-severity losses. In the fourth quarter of 2013, the Company purchased a professional liability commercial insurance policy pertaining to self-insured communities with a retention of \$5.0 million per claim and a policy limit of \$15.0 million, which covers claims incurred subsequent to the initiation of this policy.

Communities not in the self-insurance pool are insured under commercial policies that provide for deductibles for each claim ranging from \$50,000 to \$250,000. As a result, the Company is, in effect, self-insured for claims that are less than the deductibles. The net liability for known claims and incurred not yet reported claims was \$8.9 million and \$6.3 million as of December 31, 2013 and 2012, respectively (the gross liability was \$16.5 million and \$25.0 million with corresponding estimated amounts receivable from the insurance companies of \$7.6 million and \$18.7 million, respectively).

We are self-insured for workers' compensation risk (except in five states) up to \$500,000 per claim through a high deductible, collateralized insurance program. The liability for self-insured known claims and incurred but not yet reported claims was \$44.5 million and \$38.3 million at December 31, 2013 and 2012, respectively. We believe that the range of reasonably possible losses as of December 31, 2013, based on sensitivity testing of the various underlying actuarial assumptions, is approximately \$42.8 million to \$48.3 million.

For health insurance, we self-insure each participant up to \$350,000 per year above which a catastrophic insurance policy covers any additional costs. The liability for self-insured incurred but not yet reported claims is included in accrued insurance liabilities in the consolidated balance sheets and was \$8.5 million and \$10.0 million at December 31, 2013 and December 31, 2012, respectively. A 10.0% change in the estimated liability at December 31, 2013 would have increased or decreased Operated Portfolio expenses during the current period by approximately \$854,000. We share any revisions to prior estimates with the communities participating in the insurance programs, including those that we manage for third parties, based on their proportionate share of any changes in estimates.

Liabilities associated with the risks that are retained by Emeritus are not discounted and we estimate them, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. For professional liability and workers' compensation claims, we engage third-party actuaries to assist us in estimating the related liabilities. In doing so, we record liabilities for estimated losses for both known claims and incurred but not reported claims. These estimates are based on historical paid and incurred losses and ultimate losses using several actuarial methods. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. Changes in self-insurance reserves are recorded as an increase or decrease to expense in the period that the determination is made.

In March 2010, Congress enacted healthcare reform legislation, referred to as the Affordable Care Act ("ACA"), which we believe will increase our costs to provide healthcare benefits. The specific provisions of the ACA will be phased in over time through 2018, unless modifying legislation is passed before some of the provisions become effective. The ACA did not have a material financial impact on our Company in 2013, 2012 or 2011. However, we could see significant cost increases beginning in 2014 when certain additional provisions of the legislation are required to be implemented.

Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the respective tax bases of our assets and liabilities. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which we expect the temporary differences to reverse. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized.

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We evaluate our exposures associated with our various tax filing positions and record a related liability. We adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available.

Deferred tax asset valuation allowances and our liability for unrecognized tax benefits require significant management judgment regarding applicable statutes and their related interpretation, the status of various income tax audits, and our particular facts and circumstances. We believe that our estimates are reasonable; however, actual results could differ from these estimates.

Recent Accounting Pronouncements

For information regarding accounting pronouncements recently issued by the FASB that are relevant to Emeritus, see Note 1. *Description of the Business, Basis of Presentation, and Summary of Significant Accounting Policies—Recent Accounting Pronouncements.*

Impact of Inflation

Inflation could affect our future revenues and operating income due to our dependence on the senior resident population, most of whom rely on relatively fixed incomes to pay for our services. The monthly charges for the resident's unit and assisted living services are influenced by the location of the community and local competition. Our ability to increase revenues in proportion to increased operating expenses may be limited. Governmental reimbursement programs accounted for approximately 19.6% of our community and ancillary services revenues for 2013. In pricing our services, we attempt to anticipate inflation levels, but there can be no assurance that we will be able to respond to inflationary pressures in the future. Changing economic outlooks in the United States may impact our ability to raise prices. In recent years, inflation has not had a material impact on our financial position, revenues, income from continuing operations, or cash flows. We do not expect inflation affecting the U.S. dollar to materially impact our financial position, results of operations, or cash flows in the foreseeable future.

Non-GAAP Measures

A non-GAAP financial measure is generally defined as one that purports to measure historical financial position, results of operations, or cash flows but excludes or includes amounts that would not be excluded or included in most measures under GAAP.

Definition of Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) adjusted for the following items:

- Depreciation and amortization;
- Interest income;
- Interest expense;
- Net equity earnings or losses for unconsolidated joint ventures;
- Provision for income taxes;
- Loss from discontinued operations;
- Certain noncash revenues and expenses;
- Transaction costs; and
- Transition costs (incremental costs to integrate new communities).

We define Adjusted EBITDAR as Adjusted EBITDA plus lease expense, net of amortization of above/below market rents and deferred straight-line rent.

Management's Use of Adjusted EBITDA/EBITDAR

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Adjusted EBITDA/EBITDAR are commonly used performance metrics in the senior living industry. We use Adjusted EBITDA/EBITDAR to assess our overall financial and operating performance. We believe these non-GAAP measures, as we have defined them, are useful in identifying trends in our financial performance because they exclude items that have little or no significance to our day-to-day operations. These measures provide an assessment of controllable expenses and afford management the ability to make decisions, which are expected to facilitate meeting current financial goals, as well as achieve optimal financial performance. These measures also provide indicators for management to determine if adjustments to current spending levels are needed.

Adjusted EBITDA/EBITDAR provide us with measures of financial performance, independent of items that are beyond the control of management in the short-term, such as depreciation and amortization, taxation, interest expense, and lease expense associated with our capital structure. These metrics measure our financial performance based on operational factors that management can influence in the short-term, namely the cost structure or expenses of the organization. Adjusted EBITDA/EBITDAR are some of the metrics used by senior management to review the financial performance of the business on a monthly basis and are used by research analysts and investors to evaluate the performance and value of the companies in our industry.

Limitations of Adjusted EBITDA/EBITDAR

Adjusted EBITDA/EBITDAR have limitations as analytical tools. Material limitations in making the adjustments to our losses to calculate Adjusted EBITDA/EBITDAR and using these non-GAAP financial measures as compared to GAAP net loss include:

- The items excluded from the calculation of Adjusted EBITDA/EBITDAR generally represent income or expense items that may have a significant effect on our financial results;
- Items determined to be non-recurring in nature could, nevertheless, re-occur in the future; and
- Depreciation and amortization, while not directly affecting our current cash position, does represent wear and tear and/or reduction in value of our properties. If the cost to maintain our properties exceeds our expected routine capital expenditures, then this could affect our ability to attract and retain long-term residents at our communities.

An investor or potential investor may find this important in evaluating our financial position and results of operations. We use these non-GAAP measures to provide a more complete understanding of the factors and trends affecting our business. Adjusted EBITDA/EBITDAR are not alternatives to net loss, loss from continuing operations, or cash flows provided by operating activities as calculated and presented in accordance with GAAP. You should not rely on Adjusted EBITDA/EBITDAR as substitutes for any such GAAP financial measure. We strongly urge you to review the reconciliation of GAAP net loss to Adjusted EBITDA/EBITDAR presented below, along with our consolidated balance sheets, statements of operations, and statements of cash flows. In addition, because Adjusted EBITDA/EBITDAR are not measures of financial performance under GAAP and are susceptible to varying calculations, these measures as presented may differ from and may not be comparable to similarly titled measures used by other companies.

The table below shows the reconciliation of net loss to Adjusted EBITDA/EBITDAR for the three months and year ended December 31, 2013 and 2012 (in thousands):

EMERITUS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - CONTINUED
Years Ended December 31, 2013, 2012 and 2011

| | Three Months Ended | | Year Ended | |
|--|--------------------|--------------------|---------------------|--------------------|
| | December 31, | | December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (49,059) | \$ (27,525) | \$ (152,970) | \$ (85,075) |
| Depreciation and amortization | 45,869 | 42,605 | 181,483 | 140,629 |
| Interest income | (116) | (105) | (462) | (408) |
| Interest expense | 71,659 | 60,862 | 287,389 | 176,945 |
| Net equity losses for unconsolidated joint ventures | 32 | 76 | 125 | 576 |
| Income tax (benefit) provision | (1,480) | (2,078) | 639 | (1,158) |
| Loss from discontinued operations | 5,878 | — | 11,100 | 7,705 |
| Amortization of above/below market rents | 1,230 | 1,309 | 4,930 | 6,299 |
| Amortization of deferred gains | (230) | (264) | (957) | (1,046) |
| Loss on early extinguishment of debt | 207 | 53 | 204 | 186 |
| Stock-based compensation | 4,154 | 2,727 | 14,505 | 11,046 |
| Change in fair value of derivative financial instruments | 83 | 29 | 6 | 948 |
| Deferred revenue | (30) | (620) | 2,605 | (1,375) |
| Deferred straight-line rent | 3,419 | 2,859 | 4,788 | 6,080 |
| Impairment of long-lived assets | 8,227 | — | 8,227 | 2,135 |
| Transaction and financing costs | 3,904 | 3,284 | 5,737 | 5,923 |
| Transition costs | 1,142 | — | 2,189 | — |
| Self-insurance reserve adjustments, prior years | 5,952 | 3,560 | 19,376 | 5,996 |
| Adjusted EBITDA | 100,841 | 86,772 | 388,914 | 275,406 |
| Lease expense | 45,157 | 29,446 | 142,498 | 114,382 |
| Adjusted EBITDAR | \$ 145,998 | \$ 116,218 | \$ 531,412 | \$ 389,788 |

The table below shows the reconciliation of Adjusted EBITDAR to net cash provided by operating activities for the periods indicated (in thousands):

EMERITUS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - CONTINUED
Years Ended December 31, 2013, 2012 and 2011

| | Three Months Ended | | Year Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 31, | | December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Adjusted EBITDAR | \$ 145,998 | \$ 116,218 | \$ 531,412 | \$ 389,788 |
| Interest income | 116 | 105 | 462 | 408 |
| Interest expense | (71,659) | (60,862) | (287,389) | (176,945) |
| Income tax (benefit) provision | 1,480 | 2,078 | (639) | 1,158 |
| Amortization of loan fees | 719 | 754 | 3,026 | 3,219 |
| Allowance for doubtful receivables | 3,238 | 1,463 | 9,858 | 9,346 |
| Change in other operating assets and liabilities | (25,002) | (17,005) | (20,092) | 14,735 |
| Transaction and financing costs | (3,904) | (3,284) | (5,737) | (6,015) |
| Transition costs | (1,142) | — | (2,189) | — |
| Self-insurance reserve adjustments, prior years | (5,952) | (3,560) | (19,376) | (5,996) |
| Lease expense | (45,157) | (29,446) | (142,498) | (114,382) |
| Non-cash interest expense | 7,754 | 5,257 | 32,492 | 7,242 |
| Loss on lease termination | — | — | 456 | — |
| Discontinued operations cash component | 492 | — | 575 | (111) |
| Other | (2,633) | (5,781) | (2,172) | (5,889) |
| Net cash provided by operating activities | <u>\$ 4,348</u> | <u>\$ 5,937</u> | <u>\$ 98,189</u> | <u>\$ 116,558</u> |

Definition of Cash From Facility Operations:

We define Cash From Facility Operations (“CFFO”) as net cash provided by operating activities adjusted for:

- Changes in operating assets and liabilities, net;
- Repayment of capital lease and financing obligations;
- Recurring capital expenditures; and
- Distributions from unconsolidated joint ventures, net.

We define Adjusted CFFO, as CFFO adjusted for self-insurance reserve adjustments related to prior years, unusual income tax items related to prior years, transaction costs and transition costs.

Recurring capital expenditures include routine expenditures capitalized in accordance with GAAP that are funded from CFFO. Amounts excluded from recurring capital expenditures consist primarily of community acquisitions, including expenditures incurred in the months immediately following acquisition (and specifically excluding the \$30.0 million capital commitment under the HCP Lease, \$9.5 million of which remains as of December 31, 2013), new construction and expansions, ROI-designated projects, computer hardware and software purchases, and purchases of vehicles.

Management’s Use of Cash From Facility Operations

We use CFFO to assess our overall liquidity and to determine levels of executive compensation. This measure provides an assessment of controllable expenses and affords us the ability to make decisions that facilitate meeting our current financial and liquidity goals as well as achieving optimal financial performance. It provides an indicator for us to determine if we need to make adjustments to our current spending decisions.

This metric measures our overall liquidity based on operational factors that we can influence in the short term, namely the cost structure or expenses of the organization. CFFO is one of the metrics used by us and our board of directors: (i) to review our ability to service our outstanding indebtedness (including our credit facilities and long-term leases); (ii) to assess our ability to make regular recurring routine capital expenditures to maintain and improve our communities on a period-to-period basis; (iii) for planning purposes, including preparation of our annual budget; (iv) in setting various covenants in our credit agreements; and (v) in determining levels of executive compensation.

EMERITUS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS - CONTINUED
 Years Ended December 31, 2013, 2012 and 2011

Limitations of Cash From Facility Operations

CFFO has limitations as an analytical tool. It should not be viewed in isolation or as a substitute for GAAP measures of cash flows from operating activities. CFFO does not represent cash available for discretionary expenditures, since we may have mandatory debt service requirements or other non-discretionary expenditures not reflected in the measure.

We believe CFFO is useful to investors because it assists in their ability to meaningfully evaluate our ability to service our outstanding indebtedness, including our credit facilities and capital and financing leases, and our ability to make regular recurring routine capital expenditures to maintain and improve our communities.

CFFO is not an alternative to cash flows provided by or used in operating activities as calculated and presented in accordance with GAAP. You should not rely on CFFO as a substitute for any such GAAP financial measure. We strongly urge you to review the reconciliation of GAAP net cash provided by operating activities to CFFO, along with our consolidated financial statements included herein. We also strongly urge you not to rely on any single financial measure to evaluate our business. In addition, because CFFO is not a measure of financial performance under GAAP and is susceptible to varying calculations, the CFFO measure as presented in this report may differ from, and may not be comparable to, similarly titled measures used by other companies.

The following table shows the reconciliation of net cash provided by operating activities to CFFO for the periods indicated (in thousands):

| | Three Months Ended | | Year Ended | |
|--|--------------------|------------------|------------------|------------------|
| | December 31, | | December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net cash provided by operating activities | \$ 4,348 | \$ 5,937 | \$ 98,189 | \$ 116,558 |
| Changes in operating assets and liabilities, net | 25,002 | 17,005 | 20,092 | (14,735) |
| Repayment of capital lease and financing obligations | (7,664) | (5,432) | (27,146) | (17,882) |
| Recurring capital expenditures | (7,780) | (9,303) | (26,473) | (23,947) |
| Distributions from unconsolidated joint ventures (a) | 1 | 161 | 472 | 1,177 |
| Cash From Facility Operations | 13,907 | 8,368 | 65,134 | 61,171 |
| Transaction costs | 3,904 | 3,030 | 5,737 | 5,510 |
| Transition costs | 1,142 | — | 2,189 | — |
| Self-insurance reserve adjustments, prior years | 5,952 | 3,560 | 19,376 | 5,996 |
| Unusual income tax items (b) | \$ — | \$ 3,048 | \$ — | \$ 3,048 |
| Adjusted Cash From Facility Operations | \$ 24,905 | \$ 18,006 | \$ 92,436 | \$ 75,725 |

(a) Excludes distributions resulting from the HCP Transaction, the sale of communities and refinancing of debt.

(b) Consists of state tax expense related to the taxable gain on the HCP Transaction.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risk from exposure to changes in interest rates due to our financing activities and changes in the availability of credit.

The table below provides information about our debt and capital lease and financing obligations, including weighted average interest rates on these obligations as of December 31, 2013 (in thousands, except interest rates).

| | Expected maturity year | | | | | | Total | Fair value | Average interest rate |
|---------------------------|------------------------|-----------|------------|------------|------------|------------|-------------|-------------|-----------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | | | |
| Long-term debt | \$ 152,989 | \$ 48,788 | \$ 225,731 | \$ 266,393 | \$ 538,302 | \$ 266,028 | \$1,498,231 | \$1,533,192 | 5.89% |
| Capital lease obligations | 33,565 | 41,721 | 47,501 | 53,945 | 70,205 | 2,268,558 | 2,515,495 | | 7.59% |

Our results of operations are affected by changes in interest rates as a result of our short-term and long-term borrowings. At December 31, 2013, we had approximately \$316.1 million of variable rate borrowings based on LIBOR. Of this total variable rate debt, \$80.8 million varies with LIBOR with no LIBOR floors or ceilings. For every 1.0% change in the LIBOR on this \$80.8 million in variable rate debt, interest expense will either increase or decrease by \$808,000. As of December 31, 2013, the \$80.8 million of variable rate debt carried a weighted average variable rate of LIBOR plus 4.49% based on the monthly and 90-day LIBOR rates of 0.167% and 0.246%, respectively. In addition, we have variable rate debt of \$235.3 million that has LIBOR floors. At December 31, 2013, this debt carried a weighted average floor of 1.08% and a weighted average spread of 4.02%, for a total weighted average rate of 5.10%. The LIBOR floors effectively make this debt fixed rate debt as long as the monthly LIBOR is less than the 1.08% weighted average floor. Increases or decreases to the monthly LIBOR do not change interest expense on this variable rate debt until the monthly LIBOR rises above the floor and, conversely, interest expense does not decrease when the monthly LIBOR falls below the floor. This analysis does not consider changes in the actual level of borrowings or operating lease obligations that may occur subsequent to December 31, 2013. This analysis also does not consider the effects of the reduced level of overall economic activity that could exist in such an environment, nor does it consider actions that we might be able to take with respect to our financial structure to mitigate the exposure to such a change.

In October 2011, pursuant to the terms of a credit agreement related to the acquisition of 24 communities, we purchased an interest rate cap for \$1.6 million. This contract effectively caps the LIBOR on a notional amount of \$132.0 million at 2.50% over the term of the loan, and expires in June 2016. In December 2013, we refinanced the debt on two of the communities and purchased interest rate caps for a total of \$70,000. These contracts effectively cap the LIBOR on a notional amount of \$14.3 million at 2.74% over the term of the loan, and expire in January 2017.

The downturn in the United States housing market in 2008 triggered a constriction in the availability of credit that continued through 2013. This could impact our ability to borrow money or refinance existing obligations at acceptable rates of interest. Thus far, we have experienced no significant barriers to obtaining credit on commercially reasonable terms. For more information, see *Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources* in this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, supplementary data and the Report of Independent Registered Public Accounting Firm are included under Item 15, beginning on page F-1, and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. The Company maintains disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Management, under the supervision and with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness and design of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of December 31, 2013. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

(b) Management's report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (1992), we concluded that our internal control over financial reporting was effective as of December 31, 2013. KPMG LLP, the independent registered public accounting firm that performed the audit of our consolidated financial statements included with this annual report, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2013, which is on page F-3 of this Form 10-K.

(c) Changes in internal controls. Management has evaluated the effectiveness of our internal controls through December 31, 2013. Through our ongoing evaluation process to determine whether any changes occurred in internal control procedures in the fourth quarter of 2013, management has concluded that there were no such changes that materially affected, or are reasonably likely to materially affect, our controls over financial reporting.

ITEM 9B. OTHER INFORMATION

Effective February 17, 2014, the Board of Directors of Emeritus amended its Restated Bylaws to correct a clerical error and clarify that employees, in addition to directors and officers, will be indemnified and held harmless by Emeritus against any actions, suits or proceedings by reason of the fact that he or she is or was a director, officer or employee of Emeritus, serving in his or her capacity as such. The foregoing description is only a summary, does not purport to be complete, and is qualified in its entirety by reference to the Amendment to the Restated Bylaws of Emeritus Corporation, which is attached as Exhibit 3.3 to this Annual Report on Form 10-K and is incorporated herein by reference in its entirety.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

Equity Compensation Plan Information

The following table provides information about Emeritus common stock that may be issued under our existing equity compensation plans and arrangements as of December 31, 2013, including the Amended and Restated 2006 Equity Incentive Plan (the “2006 Plan”), the Amended and Restated Option Plan for Non-employee Directors (the “Directors Plan”) and the 2009 Employee Stock Purchase Plan (the “2009 ESP Plan”). The material terms of each of these plans and arrangements are described in Note 9. *Stock Plans*, in this Form 10-K.

| Plan Category | Number of shares to be issued upon exercise of outstanding options, warrants and rights (1)(a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of shares remaining available for future issuance under equity compensation plans excluding shares reflected in column (a) (2) (c) |
|--|---|--|--|
| Equity compensation plans approved by shareholders | 3,989,814 | \$ 20.27 | 2,769,127 |
| Equity compensation plans not approved by shareholders | – | – | – |
| Total | 3,989,814 | \$ 20.27 | 2,769,127 |

- (1) Represents outstanding options to purchase shares under the 2006 Plan and the Directors Plan.
- (2) Represents 2,599,637 shares available for grant under the 2006 Plan and 169,490 shares available for purchase under the 2009 ESP Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be included in our 2014 annual proxy statement (to be incorporated herein by reference) or in an amendment to this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) *The following documents are filed as a part of the report:*
- (1) *FINANCIAL STATEMENTS.* The following financial statements of the Registrant and the Report of Independent Registered Public Accounting Firm therein are filed as part of this Report on Form 10-K:

| | Page |
|---|-------------|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Report of Independent Registered Public Accounting Firm | F-3 |
| Consolidated Balance Sheets | F-4 |
| Consolidated Statements of Operations | F-5 |
| Consolidated Statements of Comprehensive Loss | F-6 |
| Consolidated Statements of Cash Flows | F-7 |
| Consolidated Statements of Shareholders' Equity | F-9 |
| Notes to Consolidated Financial Statements | F-10 |

- (2) The financial statement schedules have been omitted because the information required to be set forth therein is not applicable, is immaterial, or is shown in the consolidated financial statements or notes thereto.
- (3) EXHIBITS: The following exhibits are filed as a part of, or incorporated by reference into, this Report on Form 10-K:

See Index to Exhibits, which is incorporated by reference.

SIGNATURES

Pursuant to the requirements of 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized as of February 20, 2014.

EMERITUS CORPORATION

(Registrant)

/s/ Robert C. Bateman

Robert C. Bateman, Executive Vice President—Finance and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 20, 2014.

/s/ Daniel R. Baty

Daniel R. Baty - Chairman of the board of directors

/s/ Granger Cobb

Granger Cobb - Chief Executive Officer, President, and Director (Principal Executive Officer)

/s/ Robert C. Bateman

Robert C. Bateman - Executive Vice President-Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

/s/ H. R. Brereton Barlow

H. R. Brereton Barlow - Director

/s/ Stanley L. Baty

Stanley L. Baty - Director

/s/ Bruce L. Busby

Bruce L. Busby - Director

/s/ Stuart Koenig

Stuart Koenig - Director

/s/ Robert E. Marks

Robert E. Marks - Director

/s/ James R. Ladd

James R. Ladd - Director

/s/ Richard Macedonia

Richard Macedonia - Director

Index to Consolidated Financial Statements

| | Page No. |
|---|----------------------|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Report of Independent Registered Public Accounting Firm | F-3 |
| Consolidated Balance Sheets as of December 31, 2013 and 2012 | F-4 |
| Consolidated Statements of Operations for the years ended December 31, 2013, 2012, and 2011 | F-5 |
| Consolidated Statements of Comprehensive Loss for the years ended December 31, 2013, 2012, and 2011 | F-6 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011 | F-7 |
| Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012, and 2011 | F-9 |
| Notes to Consolidated Financial Statements | F-10 |

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Emeritus Corporation:

We have audited the accompanying consolidated balance sheets of Emeritus Corporation and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emeritus Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 20, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
February 20, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Emeritus Corporation:

We have audited Emeritus Corporation's (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Emeritus Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's report on internal control over financial reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Emeritus Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Emeritus Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 20, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
February 20, 2014

EMERITUS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

| ASSETS | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 76,672 | \$ 59,795 |
| Short-term investments | 7,394 | 4,910 |
| Trade accounts receivable, net of allowance of \$9,380 and \$7,179 | 53,714 | 53,138 |
| Other receivables | 10,310 | 28,533 |
| Tax, insurance, and maintenance escrows | 28,067 | 23,813 |
| Prepaid insurance expense | 28,109 | 24,297 |
| Deferred tax asset | 49,203 | 33,781 |
| Other prepaid expenses and current assets | 14,588 | 12,185 |
| Property held for sale | 17,459 | — |
| Total current assets | <u>285,516</u> | <u>240,452</u> |
| Investments in unconsolidated joint ventures | 2,720 | 2,513 |
| Property and equipment, net of accumulated depreciation of \$701,743 and \$533,710 | 3,875,172 | 4,011,884 |
| Restricted deposits and escrows | 80,919 | 50,671 |
| Goodwill | 189,626 | 186,756 |
| Other intangible assets, net of accumulated amortization of \$40,665 and \$47,547 | 123,557 | 131,971 |
| Other assets, net | 37,138 | 36,503 |
| Total assets | <u>\$ 4,594,648</u> | <u>\$ 4,660,750</u> |
| LIABILITIES, SHAREHOLDERS' EQUITY AND NONCONTROLLING INTEREST | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 152,989 | \$ 49,381 |
| Current portion of capital lease and financing obligations | 33,565 | 25,736 |
| Trade accounts payable | 30,856 | 14,244 |
| Accrued employee compensation and benefits | 44,603 | 53,606 |
| Accrued interest | 7,529 | 8,467 |
| Accrued real estate taxes | 16,528 | 16,432 |
| Accrued insurance liabilities | 40,482 | 44,867 |
| Other accrued expenses | 39,954 | 30,291 |
| Deferred revenue | 25,822 | 22,417 |
| Unearned rental income | 30,745 | 30,552 |
| Total current liabilities | <u>423,073</u> | <u>295,993</u> |
| Long-term debt obligations, less current portion | 1,345,242 | 1,558,936 |
| Capital lease and financing obligations, less current portion | 2,481,930 | 2,384,857 |
| Deferred gain on sale of communities | 2,786 | 3,743 |
| Deferred straight-line rent | 74,320 | 63,920 |
| Other long-term liabilities | 153,278 | 128,472 |
| Total liabilities | <u>4,480,629</u> | <u>4,435,921</u> |
| Redeemable noncontrolling interest | — | 10,105 |
| Commitments and contingencies | | |
| Shareholders' Equity and Noncontrolling Interest: | | |
| Preferred stock, \$0.0001 par value. Authorized 20,000,000 shares, none issued | — | — |
| Common stock, \$0.0001 par value. Authorized 100,000,000 shares, issued and outstanding 48,118,623 and 45,814,988 shares | 5 | 5 |
| Additional paid-in capital | 892,319 | 839,511 |
| Accumulated deficit | (780,654) | (628,093) |
| Total Emeritus Corporation shareholders' equity | <u>111,670</u> | <u>211,423</u> |
| Noncontrolling interest | 2,349 | 3,301 |
| Total shareholders' equity | <u>114,019</u> | <u>214,724</u> |
| Total liabilities, shareholders' equity, and noncontrolling interest | <u>\$ 4,594,648</u> | <u>\$ 4,660,750</u> |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

| | Year Ended December 31, | | |
|--|-------------------------|--------------------|--------------------|
| | 2013 | 2012 | 2011 |
| Revenues: | | | |
| Community and ancillary services revenue | \$ 1,927,071 | \$ 1,370,019 | \$ 1,233,665 |
| Management fees | 2,650 | 18,009 | 21,105 |
| Reimbursed costs incurred on behalf of managed communities | 30,897 | 180,048 | 217,853 |
| Total operating revenues | 1,960,618 | 1,568,076 | 1,472,623 |
| Expenses: | | | |
| Community and ancillary services operations (exclusive of depreciation, amortization and lease expense shown separately below) | 1,322,641 | 919,635 | 847,167 |
| General and administrative | 117,063 | 95,625 | 88,767 |
| Transaction costs | 5,737 | 5,510 | 9,826 |
| Impairments of long-lived assets | 8,227 | 2,135 | — |
| Depreciation and amortization | 181,483 | 140,629 | 122,372 |
| Lease expense | 152,216 | 126,761 | 124,951 |
| Costs incurred on behalf of managed communities | 30,897 | 180,048 | 217,853 |
| Total operating expenses | 1,818,264 | 1,470,343 | 1,410,936 |
| Operating income from continuing operations | 142,354 | 97,733 | 61,687 |
| Other income (expense): | | | |
| Interest income | 462 | 408 | 429 |
| Interest expense | (287,389) | (176,945) | (157,262) |
| Change in fair value of derivative financial instruments | (6) | (948) | 3,081 |
| Net equity losses for unconsolidated joint ventures | (125) | (576) | (3,081) |
| Acquisition gain | — | — | 42,110 |
| Other, net | 3,473 | 1,800 | 3,362 |
| Net other expense | (283,585) | (176,261) | (111,361) |
| Loss from continuing operations before income taxes | (141,231) | (78,528) | (49,674) |
| Benefit of (provision for) income taxes | (639) | 1,158 | (1,019) |
| Loss from continuing operations | (141,870) | (77,370) | (50,693) |
| Loss from discontinued operations | (11,100) | (7,705) | (21,570) |
| Net loss | (152,970) | (85,075) | (72,263) |
| Net loss attributable to the noncontrolling interests | 409 | 231 | 354 |
| Net loss attributable to Emeritus Corporation common shareholders | \$ (152,561) | \$ (84,844) | \$ (71,909) |
| Basic and diluted loss per common share attributable to Emeritus Corporation common shareholders: | | | |
| Continuing operations | \$ (3.04) | \$ (1.73) | \$ (1.14) |
| Discontinued operations | (0.24) | (0.17) | (0.49) |
| | \$ (3.28) | \$ (1.90) | \$ (1.63) |
| Weighted average common shares outstanding: basic and diluted | 46,553 | 44,680 | 44,312 |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|--------------------|
| | 2013 | 2012 | 2011 |
| Net loss | \$ (152,970) | \$ (85,075) | \$ (72,263) |
| Other comprehensive income (loss): | | | |
| Realized gain on sale of investment securities | — | — | (1,569) |
| Unrealized holding gains on available-for sale investment securities | — | — | 97 |
| Other comprehensive loss net of tax: | — | — | (1,472) |
| Comprehensive loss | (152,970) | (85,075) | (73,735) |
| Comprehensive loss attributable to the noncontrolling interests | 409 | 231 | 354 |
| Comprehensive loss attributable to Emeritus Corporation common shareholders | <u>\$ (152,561)</u> | <u>\$ (84,844)</u> | <u>\$ (73,381)</u> |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (152,970) | \$ (85,075) | (72,263) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 181,483 | 140,629 | 122,372 |
| Amortization of above/below market rents | 4,930 | 6,299 | 7,532 |
| Amortization of deferred gains | (957) | (1,046) | (1,125) |
| Acquisition gain | — | — | (42,110) |
| Loss on lease termination | 456 | — | — |
| Loss on early extinguishment of debt | 806 | 866 | 1,978 |
| Impairment of long-lived assets | 19,494 | 8,430 | 17,947 |
| Amortization of loan fees | 3,026 | 3,219 | 3,283 |
| Allowance for doubtful receivables | 9,858 | 9,346 | 8,090 |
| Net equity losses for unconsolidated joint ventures | 125 | 576 | 3,081 |
| (Gain) loss on sale of assets | (194) | 527 | (667) |
| Stock-based compensation | 14,505 | 11,046 | 8,106 |
| Change in fair value of derivative financial instruments | 6 | 948 | (3,081) |
| Deferred straight-line rent | 4,788 | 6,080 | 8,792 |
| Deferred revenue | 2,605 | (1,375) | 2,601 |
| Non-cash interest expense | 32,492 | 7,242 | 5,813 |
| Other | (2,172) | (5,889) | (59) |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable and other receivables | (11,198) | (13,704) | (14,406) |
| Prepaid expenses | (10,470) | (14,625) | (5,106) |
| Other assets | (28,109) | (1,281) | (3,592) |
| Trade accounts payable | 18,915 | 2,149 | (793) |
| Other accrued expenses and current liabilities | 10,327 | 41,878 | 25,140 |
| Security deposits and other long-term liabilities | 443 | 318 | 2,569 |
| Net cash provided by operating activities | <u>98,189</u> | <u>116,558</u> | <u>74,102</u> |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (68,442) | (37,212) | (33,340) |
| Acquisitions | (6,652) | (103,784) | (180,228) |
| Proceeds from the sale of assets | 42,228 | 15,599 | 40,947 |
| Lease acquisition costs and other assets, net | (11,513) | (1,120) | 157 |
| Advances from (to) affiliates and other managed communities, net | 12,743 | (1,108) | (2,224) |
| Distributions from unconsolidated joint ventures, net | 51,544 | 90,064 | 2,028 |
| Net cash provided by (used in) investing activities | <u>19,908</u> | <u>(37,561)</u> | <u>(172,660)</u> |
| Cash flows from financing activities: | | | |
| Sale of stock, net | 43,005 | 5,331 | 2,804 |
| Proceeds from lease extensions | 6,055 | — | — |
| Purchase and distributions to non-controlling interest, net | (8,847) | — | (6,668) |
| Increase in restricted deposits | (1,647) | (180) | (2,092) |
| Purchase of interest rate cap contract | (70) | — | (1,590) |
| Debt issuance and other financing costs | (2,479) | (1,424) | (10,063) |
| Proceeds from long-term borrowings and financings | 82,664 | 21,783 | 297,991 |
| Repayment of long-term borrowings and financings | (192,755) | (70,500) | (234,029) |
| Repayment of capital lease and financing obligations | (27,146) | (17,882) | (14,249) |
| Net cash (used in) provided by financing activities | <u>(101,220)</u> | <u>(62,872)</u> | <u>32,104</u> |
| Net increase (decrease) in cash and cash equivalents | 16,877 | 16,125 | (66,454) |
| Cash and cash equivalents at the beginning of the year | 59,795 | 43,670 | 110,124 |
| Cash and cash equivalents at the end of the year | <u>\$ 76,672</u> | <u>\$ 59,795</u> | <u>43,670</u> |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|------------------|
| | 2013 | 2012 | 2011 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest | \$ 252,539 | \$ 167,093 | \$ 147,017 |
| Cash paid during the period for income taxes | 2,176 | 4,183 | 1,211 |
| Cash received during the period for income tax refunds | 35 | 284 | 112 |
| Cash and non-cash financing and operating activities: | | | |
| Debt extended or refinanced | 19,138 | — | 77,668 |
| Capital lease and financing obligations | — | — | 391 |
| Unrealized gain on investment in marketable equity securities | — | — | 97 |
| Change in receivable from exercise of stock options | 807 | 789 | 25 |
| HCP Transaction: | | | |
| Increase in property and equipment | 31,977 | 1,748,524 | — |
| Assets acquired | 982 | 33,920 | — |
| Financing lease obligation | (80,939) | (1,763,624) | — |
| Long-term debt | — | (52,268) | — |
| Liabilities assumed | (982) | (43,320) | — |
| Cash paid for Emeritus nine communities | — | (901) | — |
| Carrying amount of Emeritus investment | — | (12,070) | — |
| Cash distribution from Sunwest JV | <u>\$ (48,962)</u> | <u>\$ (89,739)</u> | — |
| NOC acquisition | | | |
| Fair value of assets acquired | — | \$ 144,814 | — |
| Fair value of liabilities assumed | — | (31,932) | — |
| Non-controlling interest | — | (10,000) | — |
| Cash paid, net of cash acquired | — | <u>\$ 102,882</u> | — |
| Blackstone JV transaction: | | | |
| Fair value of assets acquired | — | — | \$ 317,323 |
| Fair value of liabilities assumed | — | — | (173,193) |
| Cash paid | — | — | (101,421) |
| Carrying value of Emeritus investment | — | — | (599) |
| Acquisition gain | — | — | <u>\$ 42,110</u> |
| Durable medical equipment provider acquisition: | | | |
| Fair value of assets acquired | — | — | \$ 1,978 |
| Fair value of liabilities assumed | — | — | (553) |
| Noncontrolling interest | — | — | (698) |
| Acquisition gain | — | — | <u>\$ 727</u> |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands, except share data)

| | Emeritus Corporation Shareholders | | | | | | | Total shareholders' equity |
|--|-----------------------------------|-------------|----------------------------------|---|------------------------|----------------------------|-------------------|----------------------------------|
| | Common stock | | Additional paid-in capital | Accumulated other comprehensive income | Accumulated deficit | Noncontrolling interest | | |
| | Number of shares | Amount | | | | | | |
| Balances as of December 31, 2010 | 44,193,818 | \$ 4 | \$ 814,209 | \$ 1,472 | \$ (471,340) | \$ 7,161 | \$ 351,506 | |
| Issuances of shares under Employee Stock Purchase Plan | 59,314 | — | 834 | — | — | — | 834 | |
| Options exercised | 301,729 | — | 2,066 | — | — | — | 2,066 | |
| Restricted stock issued | 435,000 | — | — | — | — | — | — | |
| Stock-based compensation expense | — | — | 8,106 | — | — | — | 8,106 | |
| Contract buyout costs (Note 8) | — | — | (2,799) | — | — | (3,869) | (6,668) | |
| Noncontrolling interest contribution | — | — | — | — | — | 698 | 698 | |
| Stock issuance cost | — | — | (71) | — | — | — | (71) | |
| Net loss | — | — | — | — | (71,909) | (354) | (72,263) | |
| Realized gain on sale of investment securities | — | — | — | (1,569) | — | — | (1,569) | |
| Unrealized gain on marketable securities | — | — | — | 97 | — | — | 97 | |
| Balances as of December 31, 2011 | 44,989,861 | 4 | 822,345 | — | (543,249) | 3,636 | 282,736 | |
| Issuances of shares under Employee Stock Purchase Plan | 52,730 | — | 808 | — | — | — | 808 | |
| Options exercised | 407,096 | 1 | 5,312 | — | — | — | 5,313 | |
| Restricted stock issued | 366,172 | — | — | — | — | — | — | |
| Cancelled shares | (871) | — | — | — | — | — | — | |
| Stock-based compensation expense | — | — | 11,046 | — | — | — | 11,046 | |
| Net loss | — | — | — | — | (84,844) | (335) | (85,179) | |
| Balances as of December 31, 2012 | 45,814,988 | 5 | 839,511 | — | (628,093) | 3,301 | 214,724 | |
| Issuances of shares under Employee Stock Purchase Plan | 52,392 | — | 917 | — | — | — | 917 | |
| Options exercised | 658,691 | — | 10,001 | — | — | — | 10,001 | |
| Stock issued in secondary offering | 1,196,040 | — | 31,280 | — | — | — | 31,280 | |
| Restricted stock issued | 396,512 | — | — | — | — | — | — | |
| Distribution to minority owners | — | — | (3,905) | — | — | — | (3,905) | |
| Stock-based compensation expense | — | — | 14,505 | — | — | — | 14,505 | |
| Tax benefit from exercise of stock options | — | — | 10 | — | — | — | 10 | |
| Noncontrolling interest contribution | — | — | — | — | — | 180 | 180 | |
| Sale of noncontrolling interest | — | — | — | — | — | (107) | (107) | |
| Net loss | — | — | — | — | (152,561) | (1,025) | (153,586) | |
| Balances as of December 31, 2013 | 48,118,623 | \$ 5 | \$ 892,319 | \$ — | \$ (780,654) | \$ 2,349 | \$ 114,019 | |

See accompanying Notes to Consolidated Financial Statements

EMERITUS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012, and 2011

Note 1. Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

Emeritus Corporation (“Emeritus,” the “Company,” “we,” “us” or “our”) is a senior living service provider focused on operating residential style communities throughout the United States. Our assisted living and Alzheimer’s and dementia care (“memory care”) communities provide a residential housing alternative for senior citizens who need help with the activities of daily living, with an emphasis on assisted living and personal care services. Many of our communities offer independent living alternatives and, to a lesser extent, skilled nursing care. We also offer a range of outpatient therapy and home health services in Florida, Arizona and Texas. As of December 31, 2013, we owned 186 communities and leased 311 communities. These 497 communities comprise the communities included in the consolidated financial statements and are referred to as our “Consolidated Portfolio.”

We also provide management services to independent and related-party owners of senior living communities. As of December 31, 2013, we managed 15 communities, three of which are owned by joint ventures in which we have a financial interest. The majority of our management agreements provide for fees of 5.0% of gross revenues. The communities that we manage for others, combined with our Consolidated Portfolio, are referred to as our “Operated Portfolio.”

Merger Agreement with Brookdale

On February 20, 2014, Emeritus and Brookdale Senior Living, Inc. (“Brookdale”) announced that the companies have entered into a definitive Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which Brookdale Merger Sub Corporation, a wholly owned subsidiary of Brookdale (“Merger Sub”) will merge with and into Emeritus, with Emeritus continuing as the surviving corporation and becoming a wholly owned subsidiary of Brookdale (the “Merger”). See Note 18 for further discussion.

Basis of Presentation

Principles of Consolidation

The consolidated financial statements include the accounts of Emeritus and its wholly owned subsidiaries. We do not consolidate our management contracts and certain joint ventures that we do not control. We eliminate all intercompany balances and transactions in consolidation.

Segment Information

In November 2012, we acquired Nurse On Call, Inc. (“NOC”), a home healthcare provider. Also, we began leasing 129 senior living communities in the fourth quarter of 2012 and four additional communities in the first quarter of 2013 that we had previously managed for an unconsolidated joint venture (the “HCP Transaction”) (Note 4). As a result of these transactions, Emeritus is comprised of three operating segments and reporting units, which are: (i) ancillary services, primarily NOC; (ii) the 133 communities leased in the HCP Transaction (the “HCP Leased Communities”); and (iii) the legacy Emeritus communities. See Note 15 for segment financial data.

Revision of Prior-Period Financial Statements

In the first quarter of 2013, we determined that the portions of our accruals for professional and general liability and workers’ compensation that are not expected to be paid within one year of the balance sheet date should have been classified as long-term liabilities (Note 11). The prior-period financial statements included in this filing have been revised to reflect this correction, which decreased current liabilities and increased long-term liabilities by \$55.7 million as of December 31, 2012. In addition, a portion of receivables from insurance companies related to professional and general liability was reclassified, which decreased current assets and increased other assets, net, by \$10.1 million as of December 31, 2012. A portion of prepaid insurance expense related to our workers’ compensation program was reclassified, which decreased current assets and increased restricted deposits and escrows by \$27.4 million as of December 31, 2012.

EMERITUS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012, and 2011

In addition, certain reclassifications were made to the consolidated balance sheet as of December 31, 2012 to conform to the current-year presentation. Specifically, the current portion of accrued professional and general liability and workers' compensation, as well as accrued health insurance, are included in accrued insurance liabilities as of December 31, 2013 and December 31, 2012. As of December 31, 2012, we reclassified \$23.7 million related to workers compensation and health insurance from accrued employee compensation and benefits to accrued insurance liabilities.

In the fourth quarter of 2013, we made adjustments to certain of our deferred tax assets and liabilities and the valuation allowance. The most significant adjustments were related to presenting deferred balances related to capital leases on a gross, rather than net, basis and adjustments to fixed assets related to capital lease activity. The net impact of the adjustments was an increase in net deferred tax assets of \$22.3 million and an increase in the valuation allowance of the same amount. Unlike the accrual adjustments discussed above, the 2012 financial statements have not been revised because we do not believe comparability relative to this matter is as meaningful.

Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents consist primarily of money market investments, triple-A rated government agency notes, and certificates of deposit with a maturity date at purchase of 90 days or less.

Short-Term and Long-Term Investments

We classify short-term investment securities with a readily determinable fair value as trading securities and record them at fair value. They represent the assets of our nonqualified deferred compensation plan.

Trade Accounts Receivable

The balance of trade accounts receivable, net of an allowance for doubtful accounts, represents our estimate of the amount that ultimately will be realized in cash. The allowance for doubtful accounts was \$9.4 million and \$7.2 million as of December 31, 2013 and 2012, respectively. We review the adequacy of our allowance for doubtful accounts on an ongoing basis using historical payment trends, write-off experience, analysis of receivable portfolios by payor source, and aging of receivables, as well as a review of specific accounts. We record adjustments to the allowance as necessary based upon the results of our review.

The balance includes home healthcare receivables attributable to our acquisition of NOC in the fourth quarter of 2012; such receivables consist primarily of services reimbursable under Medicare and are outstanding longer than our historically primarily private-pay senior living services receivables. In addition, the allowance for doubtful accounts includes Medicare contractual allowances for final amounts to be received for episodic services provided.

Activity in the allowance for doubtful accounts is as follows (in thousands):

| | |
|------------------------------------|-----------------|
| Balance at December 31, 2010 | \$ 1,497 |
| Provision for doubtful receivables | 8,090 |
| Write-offs and adjustments | (7,293) |
| Balance at December 31, 2011 | 2,294 |
| NOC acquisition | 3,709 |
| Provision for doubtful receivables | 9,346 |
| Write-offs and adjustments | (8,170) |
| Balance at December 31, 2012 | 7,179 |
| Provision for doubtful receivables | 9,858 |
| Write-offs and adjustments | (7,657) |
| Balance at December 31, 2013 | <u>\$ 9,380</u> |

Property and Equipment

EMERITUS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012, and 2011

Property and equipment are carried at cost less accumulated depreciation. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets as follows: buildings and improvements, five to 50 years; furniture, equipment, and vehicles, three to seven years; and capital lease assets and leasehold improvements, over the shorter of the useful life or the lease term. We expense maintenance and repairs as incurred and capitalize expenditures for refurbishments and improvements that extend the useful life of an asset.

We record construction in progress at cost, which includes the cost of construction and other direct costs attributable to the construction. We do not record depreciation on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at December 31, 2013 and 2012 represents refurbishment projects at existing communities.

We capitalize certain internal software development costs. Such costs consist primarily of custom-developed software and the direct labor costs of internally-developed software. The authoritative accounting literature describes three stages of software development projects: the preliminary project stage (all costs expensed as incurred), the application development stage (certain costs capitalized, certain costs expensed as incurred), and the post-implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage include the costs of design, coding, and installation of hardware and software. We capitalize costs incurred during the application development stage of the project as required.

Restricted Deposits and Escrows

Restricted deposits consist of funds required by various landlords and lenders to be placed on deposit as security for our performance under the lease or debt agreements and will generally be held until the lease termination or debt maturity date, or in some instances, may be released to the Company when the related communities meet certain debt coverage and/or cash flow coverage ratios. As of December 31, 2013, restricted deposits also include a \$20.9 million cash deposit to collateralize a bond related to a litigation matter (Note 11).

Investments in Unconsolidated Joint Ventures

We have investments in unconsolidated joint ventures that we account for under the equity method or cost method of accounting (Note 2). In determining the accounting treatment for these investments, we consider various factors such as the amount of our ownership interest, our voting rights and ability to influence decisions, our participating rights, and whether it is a variable interest entity and, if so, whether Emeritus is the primary beneficiary. We reevaluate each joint venture's status quarterly or whenever there is a change in circumstances such as an increase in the entity's activities, assets, or equity investments, among other things.

Other Intangible Assets

In connection with certain acquisitions, the Company acquires various definite and indefinite-lived intangible assets (Note 5). We amortize these assets over their estimated useful lives or the term of the related contract or lease agreement.

Asset Impairments

Goodwill. We test goodwill for impairment annually and more frequently if facts and circumstances indicate goodwill carrying values may exceed the estimated implied fair value of the Company's goodwill. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"), we have the option of performing a "qualitative" assessment to determine whether a further impairment test is necessary. As a result, we first assess a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, and entity-specific factors such as strategies and financial performance, when evaluating potential impairment for goodwill. If, after completing such assessment, it is determined that it is "more likely than not" that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test, whereby the first step is comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired and the second step of the test is not performed. The second step of the impairment test is performed when the carrying amount of the reporting unit exceeds the fair value, in which case the implied fair value of the reporting unit goodwill is compared with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

EMERITUS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012, and 2011

As of October 31, 2013 (the date we elected as our annual goodwill impairment test effective date), Emeritus was comprised of three reporting units, which are: (i) ancillary services, primarily NOC; (ii) the 133 HCP Leased Communities; and (iii) the legacy Emeritus communities. We performed our qualitative assessment as of October 31, 2013 and determined that it was not "more likely than not" that the fair value of each of our reporting units was less than their respective applicable carrying values. Accordingly, it was not necessary to perform the two-step impairment test and no goodwill impairment was recognized in 2013.

As a part of our ongoing operations, we may sell certain communities due to their under-performance or other reasons. Under generally accepted accounting principles in the United States ("GAAP"), when a portion of a reporting unit that constitutes a business is to be disposed of, goodwill associated with the business is included in the carrying amount of the business in determining any gain or loss on disposal.

Long-Lived Assets. Long-lived assets include property and equipment, investments in unconsolidated joint ventures, and amortizable intangible assets. We review our long-lived assets for impairment whenever a change in condition occurs that indicates that the carrying amounts of assets may not be recoverable. Such changes include changes in our business strategies and plans, changes in the quality or structure of our relationships with our partners, and deteriorating operating performance of individual communities or investees. Long-lived assets, other than goodwill, are reviewed at the community level. We use a variety of factors to assess the realizable value of long-lived assets depending on their nature and use. Such assessments are primarily based upon the sum of expected future net cash flows over the expected period the asset will be utilized or held, as well as market values and conditions. Any changes in these factors or assumptions could impact the assessed value of an asset and result in an impairment charge equal to the amount by which its carrying value exceeds its estimated fair value.

Insurance Reserves

We use a combination of commercial insurance and self-insurance mechanisms to provide for the potential liabilities for certain risks, including workers' compensation, healthcare benefits, professional and general liability, property insurance, and director and officers' liability insurance. Liabilities associated with the risks that are retained by us are not discounted and are estimated, in part, by considering historical claims experience, demographic, exposure and severity factors, and other actuarial assumptions. If actual losses exceed the estimates, we accrue additional expense at the time of such determination.

For professional liability claims, as of December 31, 2013, we are self-insured for 267 of our 497 consolidated owned and leased communities as well as six of our managed communities, and we record losses based on actuarial estimates of the total aggregate liability for claims incurred and expected to occur. We cover losses through a self-insurance pool agreement. We deposit funds with an administrator based in part on a fixed schedule and in part as losses are actually paid. We record the funds held by the administrator as a prepaid asset, which was \$1.4 million and \$1.3 million as of December 31, 2013 and 2012, respectively. In the fourth quarter of 2013, the Company purchased a professional liability commercial insurance policy pertaining to self-insured communities with a retention of \$5.0 million per claim and a policy limit of \$15.0 million, which covers claims incurred subsequent to the initiation of this policy.

Communities not in the self-insurance pool are insured under commercial policies that provide for deductibles for each claim ranging from \$50,000 to \$250,000. As a result, the Company is, in effect, self-insured for claims that are less than the deductibles.

For health insurance, we self-insure each participant up to \$350,000 per year, above which a catastrophic insurance policy covers any additional costs. We accrue health insurance liabilities based upon our historical experience of claims incurred.

We maintain workers' compensation insurance coverage through a high deductible, collateralized insurance policy. We record the cash collateral paid under the plan as a prepaid asset and reduce the prepaid balance as claims are paid from the account by the third-party administrator. As of December 31, 2013 and 2012, the prepaid asset was \$49.3 million and \$40.2 million, respectively, of which \$35.0 million and \$27.4 million, respectively, is included in restricted deposits and escrows in the consolidated balance sheets. Premiums and the collateral requirement are adjusted annually based on an audit by the insurer. Claims and expenses incurred under the collateralized policy are shared among the participants through a self-insurance pooling agreement, which includes the managed communities, unless such communities are located in Ohio, North Dakota, Texas, Washington, or Wyoming.

For work-related injuries in Texas, we provide benefits through a qualified state-sponsored plan. We pay claim expenses as incurred and we accrue estimated losses each month based on actual payroll results. An insurance policy is in place to cover

EMERITUS CORPORATION
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liability losses in excess of a deductible amount. In Ohio, North Dakota, Washington and Wyoming, we participate in the specific state plan and pay premiums based on a rate determined by the state.

Income Taxes

We compute income taxes using the asset and liability method. We record current income taxes based on amounts refundable or payable in the current year. We record deferred income taxes based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record a valuation allowance to reduce our deferred tax assets to the amount that is “more likely than not” to be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. However, in the event that we were to determine that it would be “more likely than not” that the Company would realize the benefit of deferred tax assets in the future in excess of their net recorded amounts, adjustments to deferred tax assets would increase net income in the period we made such a determination.

We recognize the tax benefit from an uncertain tax position only if it is “more likely than not” that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We measure the tax benefits recognized in the financial statements from such a position based on the largest benefit that has a greater than 50.0% likelihood of being realized upon settlement. We classify interest and penalties related to uncertain tax positions, if any, as tax expense in our financial statements.

Leases

We determine whether to account for our leases as operating leases, capital leases, or financing obligations based on the underlying terms. Our classification criteria are based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community, and certain other terms in the lease agreements. For capital leases, we record an asset at the inception of the lease based on the present value of the rental payments over the lease term, which amount may not exceed the fair value of the underlying leased property, and we record a corresponding long-term liability. We allocate lease payments between principal and interest on the lease obligation and depreciate the capital lease asset over the term of the lease. We account for properties that are sold and leased back and for which the Company has continuing involvement as financing arrangements, whereby the property remains on the consolidated balance sheets and we record a financing obligation that is generally equal to the purchase price of the properties sold. The impact on the consolidated statements of operations is similar to a capital lease. We do not include properties under operating leases on the consolidated balance sheets, and we record the rents as lease expense.

We account for leases with rent holiday provisions or that contain fixed payment escalators on a straight-line basis as if the lease payments were fixed evenly over the life of each lease. We capitalize out-of-pocket costs incurred to enter into lease contracts as lease acquisition costs and amortize them over the lives of the respective leases as lease expense.

Certain leases contain payment escalators based on the greater of a fixed rate or the increase in the Consumer Price Index (“CPI”) or other variable rate indices. If we have a high level of certainty that the fixed rate increase under the lease will be met, we account for lease payments on a straight-line basis using the fixed rate. The deferred straight-line rent liability on the consolidated balance sheets primarily represents the effects of straight-lining lease payments.

Deferred Gain on Sale of Communities

Deferred gain on sale of communities represents gains on certain sale-leaseback transactions. We amortize these deferred gains using the straight-line method over the terms of the associated leases when the Company has no continuing financial involvement in communities that it has sold and leased back. In cases of sale-leaseback transactions in which the Company has continuing involvement, other than normal leasing activities, we do not record the sale until such involvement terminates. See Note 4 for further discussion of the deferred gain resulting from the HCP Transaction.

Derivative Instruments

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In the normal course of business, the Company's financial results are exposed to the effect of interest rate changes so we may limit these risks by following risk management policies and procedures, including the use of derivatives. To address exposure to interest rates, we have used interest rate swap and interest rate cap agreements to fix the rate on variable-rate debt and to manage the cost of borrowing obligations.

Hedges that we report at fair value and present on the consolidated balance sheets may be characterized as either cash flow hedges or fair value hedges. We account for our derivative instruments as cash flow hedges because they address the risk associated with future cash flows of debt transactions. We did not designate them as hedging instruments for accounting purposes; therefore, we recognize the unrealized gain or loss resulting from the change in the estimated fair values in other income (expense) in the consolidated statements of operations.

Contingent Liabilities

We record contingent liability obligations if they are probable and estimable based on our best estimate of the ultimate outcome. If a legal judgment is rendered against the Company or a settlement offer is tendered, we accrue the estimated amount that we believe we will pay for the judgment or the settlement offer.

Revenue Recognition

Community revenue consists of residents' rental and services fees and revenue from home healthcare services. We rent resident units on a month-to-month basis and recognize rent in the month residents occupy their units. To the extent residents prepay their monthly rent, we record unearned rental income. We recognize service fees paid by residents for assisted living and other related services in the period we render those services.

We also charge nonrefundable move-in fees at the time residents first occupy their unit. We defer the revenue for these fees and record them as deferred revenue on the consolidated balance sheets. We recognize the revenue over the average period of resident occupancy, estimated at an average of 20 months for 2013, 22 months for 2012, and 20 months for 2011. We receive management fees from community management contracts, and we recognize the revenue in the month in which we perform the services in accordance with the terms of the management contract. Fee arrangements under our management agreements vary, but the majority of our management agreements provide for fees of 5.0% of gross revenues.

Costs incurred on behalf of managed communities are comprised entirely of community operating expenses and include items such as employee compensation and benefits, insurance, and costs incurred under national vendor contracts.

Approximately 19.6%, 13.9%, and 12.8% of our community and ancillary services revenues in 2013, 2012, and 2011, respectively, were derived from governmental reimbursement programs such as Medicare and Medicaid. We record billings for services under third-party payor programs net of contractual adjustments as determined by the specific program. We accrue any retroactive adjustments when assessed, regardless of when the assessment is paid or withheld, even if we have not agreed to or are appealing the assessment. We record subsequent positive or negative adjustments to these accrued amounts in net revenues when they become known.

Stock-Based Compensation

We grant options to purchase the Company's common stock at a price equal to the closing market price of the stock on the date of grant. We estimate the fair value of each stock option granted using the Black-Scholes option pricing model. This model requires us to make assumptions to determine expected risk-free interest rates, stock price volatility, dividend yield, and weighted-average option life. We recognize stock-based compensation expense over the period from the date of grant to the date when the award is no longer contingent on the employee providing additional services (the vesting period). The Company's stock incentive plans provide that awards generally vest over a four-year period. Any unexercised options expire in seven to ten years. We estimate the fair value of each grant as a single award and amortize that value on a straight-line basis into compensation expense over the grant's vesting period.

We also grant restricted (unvested) stock to certain key executives. The fair value of the restricted shares is equal to the market price of Emeritus stock on the grant date. The shares vest over four years if certain annual performance criteria are met, and the fair value is amortized into compensation expense using the graded vesting method, subject to an assessment of whether it is probable that the performance goal will be achieved.

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Discontinued Operations

In considering whether a group of assets disposed of, or to be disposed of, should be presented as a discontinued operation, we determine whether the disposed assets comprise a component of the Company. That is, we assess if the disposed assets have historic operations and cash flows that can be clearly distinguished, both operationally and for financial reporting purposes. We also determine whether the cash flows associated with the disposed assets have been, or will be, significantly eliminated from the ongoing operations of the Company as a result of the disposal transaction and whether we will have any significant continuing involvement in the operations of the disposed assets after the disposal transaction. If our determinations are affirmative, we aggregate the results of operations of the disposed assets, if material, as well as any gain or loss on the disposal transaction, for presentation separately from the continuing operating results of the Company in the consolidated financial statements. We did not reclassify the revenues and expenses of communities sold in 2013, 2012, and 2011 to loss from discontinued operations because we do not consider the corresponding results of operations to be material to the consolidated statements of operations.

Loss Per Share

We compute basic net loss per share based on weighted average shares outstanding and exclude any potential dilution. We compute diluted net loss per share based on the weighted average number of shares outstanding plus dilutive potential common shares. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) using the treasury stock method. Dilutive potential shares are excluded from the computation of earnings per share if their effect is antidilutive.

As of December 31, 2013, 2012, and 2011, we had outstanding stock options totaling 3,989,814, 4,401,418, and 4,470,939, respectively, which were excluded from the computation of loss per share because they were antidilutive. Performance-based restricted shares, totaling 1,088,934 shares as of December 31, 2013, are included in total outstanding shares but are excluded from the loss per share calculation until the related performance criteria have been met.

As of December 31, 2012, the redeemable noncontrolling interest represents equity held by the minority members of NOC ("Minority Members"). We estimated the redemption value of the redeemable noncontrolling interest based on the formula specified in the NOC put/call agreement. Because the redemption value may not have fully represented fair value, and the terms of the redemption feature were not included in our attribution of net income or loss to the noncontrolling interest, we were required under GAAP to apply the two-class method for calculating net loss per share. Under the two-class method, net loss attributable to Emeritus common shareholders was adjusted for the change in the excess of the noncontrolling interest's estimated redemption value over its measurement amount per ASC Section 480-10-S99 (i.e., acquisition fair value adjusted for dividends and attribution of net income or loss). This calculation had no material impact on our consolidated net loss per share attributable to Emeritus common shareholders. We purchased the Minority Members' remaining interests in December 2013 (Note 4).

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This new standard requires the netting of unrecognized tax benefits ("UTB"s) against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. ASU No. 2013-11 is effective for Emeritus beginning in the first quarter of 2014, and we do not expect that it will have a material impact on our financial statements.

In July 2012, the FASB issued ASU No. 2012-2, *Testing Indefinite-Lived Intangible Assets for Impairment*. In accordance with the amendments in this update, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. We adopted ASU 2012-2 effective January 1, 2013 and it did not have a material impact on our financial statements.

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In June 2011, the FASB issued ASU 2011-5, *Presentation of Comprehensive Income*. This standard eliminates the option to report other comprehensive income (“OCI”) and its components in the statement of shareholders’ equity. Instead, an entity is required to present items of net income and other comprehensive income either in a continuous statement of net income and OCI or in two separate but consecutive statements. We adopted ASU 2011-5 beginning with our financial statements for the first quarter of 2012, and it resulted only in changes to presentation of our financial statements. In February 2013, the FASB issued ASU 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires entities to present, either on the face of the income statement or in the notes, the effects on the line items of the income statement for amounts reclassified out of accumulated other comprehensive income. We adopted ASU 2013-2 effective January 1, 2013, and it did not have a material impact on our financial statements or related disclosures.

Note 2. Investments in Unconsolidated Joint Ventures

Investments in unconsolidated joint ventures consist of the following (in thousands):

| | December 31, | |
|--|-----------------|-----------------|
| | 2013 | 2012 |
| Investment in China limited partnership | \$ 1,800 | \$ 742 |
| Investment in Emeritus/Wegman joint ventures | 920 | 1,771 |
| Total investments in unconsolidated joint ventures | <u>\$ 2,720</u> | <u>\$ 2,513</u> |

China Limited Partnership

In 2011, we began working with an entity controlled by Daniel R. Baty, a founder of the Company and Chairman of our board of directors, on potential senior housing projects in China in anticipation of a partnership or joint venture (various entities affiliated with Mr. Baty are referred to collectively in this report as Columbia Pacific). In 2012, we entered into a consulting agreement with Columbia Pacific under the terms of which we are providing systems, programmatic and operational support in connection with senior housing investment activities in China.

In October 2013, we invested \$1.8 million in the Columbia Pacific China Healthcare Fund, L.P. (the "China Fund"). Columbia Pacific is the general partner and manager. As of December 31, 2013, our ownership interest in the China Fund was approximately 5.33% and when the China Fund is fully subscribed and funded, our ownership interest will be less than 2.0%. For this reason and because we have very little influence over the operating and financial policies of the China Fund, we are accounting for our investment using the cost method.

For a portion of our capital contribution to the China Fund, we were given credit for items such as operational and development know-how, processes, systems and related documentation. As a result, we realized a noncash gain on our investment of \$1.0 million, which is included in other, net expense in the consolidated statement of operations for 2013.

Emeritus/Wegman Joint Ventures

Since 2005, we have entered into a number of 50% joint ventures with Wegman family entities (“Wegman”) to develop, construct and operate assisted living and memory care communities (the Wegman JVs). In 2012, we opened a 36-unit memory care community in Vestal, New York. In 2011, we opened an 81-unit assisted living and memory care community in Deerfield, Ohio, and in 2007 we opened an 81-unit assisted living and memory care community in Stow, Ohio. An additional 36-unit memory care community in Troy, New York, is in the development stage.

Under these joint venture agreements, Wegman is responsible for the development and construction of the communities, and Emeritus is the administrative member responsible for day-to-day operations for which we receive a management fee equal to the greater of \$5,000 per month or 5.0% of gross operating revenues. All major decisions regarding the Wegman JVs require the consent of Wegman. We have made capital contributions to the Wegman JVs since their inception totaling \$4.0 million and have received cash distributions totaling \$2.8 million in 2013, \$577,000 in 2012 and \$1.6 million in 2011. We earned management fees, combined, of \$486,000 in 2013, \$341,000 in 2012 and \$202,000 in 2011.

Sunwest Joint Venture

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Prior to December 31, 2013, the Company held a 6.0% ownership interest in a joint venture with BRE/SW Member LLC, an affiliate of Blackstone Real Estate Advisors VI, L.P (“Blackstone”), Columbia Pacific, and certain tenant-in-common investors (the “TICs”) (the “Sunwest JV”). The Sunwest JV was formed in 2010 to acquire a portfolio of communities (the “Properties”) formerly operated by an Oregon limited liability company that was in bankruptcy.

The Sunwest JV acquired 144 Properties in 2010 for an aggregate unadjusted purchase price of approximately \$1.3 billion, and the TICs rolled over their ownership interests into the Sunwest JV. The consideration included (i) approximately \$279.0 million in a combination of cash and TIC membership interests in the Sunwest JV and (ii) the assumption by the Sunwest JV of secured debt of approximately \$979.0 million. We contributed cash of \$19.0 million.

We entered into management agreements with the Sunwest JV to manage the Properties for a fee equal to 5.0% of gross collected revenues, and we recorded management fee revenues of \$168,000 in 2013, \$16.1 million in 2012 and \$18.0 million in 2011.

In the fourth quarter of 2012 and first quarter of 2013, in connection with the HCP Transaction (defined in Note 4), we entered into long-term lease agreements for 133 of the Properties (the “HCP Leased Communities”) in a sale-leaseback arrangement with HCP, Inc. (“HCP”) and purchased nine of the Properties (the “Emeritus Nine Communities”) outright. As a result, our investment in the Sunwest JV was reduced to zero. Final cash distributions were made to the members in 2013, of which Emeritus received approximately \$49.0 million, and the Sunwest JV was dissolved.

2006 Blackstone Joint Venture

Until June 1, 2011, the Company held a 19.0% interest in a joint venture with an affiliate of Blackstone (the “Blackstone JV”) that acquired a total of 24 properties during 2006 and 2007. As described in detail in Note 4, on June 1, 2011, we purchased Blackstone’s equity interest in the Blackstone JV.

Combined balance sheets for our unconsolidated equity method joint ventures are as follows (in thousands):

| | December 31, | |
|---|-------------------------|--------------------------|
| | (unaudited) | |
| | 2013 | 2012 |
| Current assets | \$ 800 | \$ 170,258 |
| Property and equipment | 26,080 | 57,112 |
| Other assets | 311 | 478 |
| Total assets | <u>\$ 27,191</u> | <u>\$ 227,848</u> |
| Current liabilities | \$ 8,737 | \$ 53,205 |
| Long-term debt | 22,669 | 23,561 |
| Other liabilities | 19 | 661 |
| Members’ capital | (4,234) | 150,421 |
| Total liabilities and members’ capital | <u>\$ 27,191</u> | <u>\$ 227,848</u> |
| The Company's share of members’ capital | \$ 2,720 | \$ 2,513 |

Combined statements of operations for our unconsolidated equity method ventures are as follows (in thousands):

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| | Year Ended December 31, (unaudited) | | |
|--|--|------------|------------|
| | 2013 | 2012 | 2011 |
| Total revenues | \$ 12,963 | \$ 337,638 | \$ 409,276 |
| Community operating expenses | 10,165 | 249,839 | 312,010 |
| Impairments on long-lived assets | — | — | 19,013 |
| Operating income from continuing operations | 188 | 43,005 | 5,590 |
| Net income (loss) (1) | 21,730 | 618,396 | (57,228) |
| | | | |
| The Company's share of net income (loss) (1) | \$ (125) | \$ (576) | \$ (3,081) |

- (1) In 2012, the Sunwest JV recognized a gain on the sale of communities in connection with the HCP Transaction. As discussed in Note 4, Emeritus did not recognize its share of this gain, but rather deferred it as part of a financing lease obligation.

Note 3. Property and Equipment

Property and equipment consisted of the following (in thousands):

| | December 31, | |
|---|--------------|--------------|
| | 2013 | 2012 |
| Construction in progress | \$ 18,715 | \$ 10,612 |
| Land and improvements | 215,809 | 224,259 |
| Buildings and improvements | 4,067,170 | 4,078,071 |
| Furniture and equipment | 178,249 | 153,166 |
| Vehicles | 16,331 | 13,990 |
| Leasehold improvements | 80,641 | 65,496 |
| Total property and equipment | 4,576,915 | 4,545,594 |
| Less: accumulated depreciation and amortization | 701,743 | 533,710 |
| Net property and equipment | \$ 3,875,172 | \$ 4,011,884 |

Property and equipment under capital leases and financing obligations included in the above schedule consist of the following at December 31 (in thousands):

| | Cost | | Accumulated Depreciation | | Net of Accumulated Depreciation | |
|----------------------------|--------------|--------------|--------------------------|--------------|------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | | \$ | \$ | \$ | \$ | \$ |
| Land and improvements | 3,812 | 3,812 | — | — | 3,812 | 3,812 |
| Buildings and improvements | 2,395,025 | 2,363,048 | (280,189) | (184,025) | 2,114,836 | 2,179,023 |
| Furniture and equipment | 2,501 | 2,843 | (1,976) | (2,522) | 525 | 321 |
| Vehicles | 742 | 911 | (732) | (819) | 10 | 92 |
| | \$ 2,402,080 | \$ 2,370,614 | \$ (282,897) | \$ (187,366) | \$ 2,119,183 | \$ 2,183,248 |

Depreciation and amortization for capital leases and financing obligations was approximately \$96.6 million, \$52.7 million, and \$44.3 million for 2013, 2012, and 2011, respectively.

Note 4. Acquisitions and Other Significant Transactions

We make acquisitions of certain businesses and complete other transactions from time to time that we believe align with our strategic intent to, among other factors, enhance the overall care of our residents as well as maximize our revenues, operating income, and cash flows.

In September 2013, we acquired 38 communities pursuant to an operating lease with Health Care REIT, Inc. ("HCN") (the "Master Lease"). These communities were previously operated by Merrill Gardens (the "Merrill Gardens Communities"). Rent

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in the first year of the Master Lease is \$54.0 million and will increase each year based on the greater of (i) the percentage change in the CPI or (ii) (a) 4.0% in the second year of the lease and (b) 3.25% thereafter. Additional rent may be due beginning in the third year of the lease if gross revenues, as defined therein, exceed certain thresholds. The initial term of the Master Lease is fifteen years, and we have the option to extend the lease for one additional fifteen-year term. HCN and Emeritus have committed to fund up to \$10.0 million for capital improvements during the first two years of the Master Lease, and our rent will increase by 6.5% of any such capital improvements funded by HCN. The Company also entered into an operations transfer agreement with Merrill Gardens, pursuant to which we paid to Merrill Gardens a \$10.0 million management contract termination fee upon commencement of the Master Lease.

In July 2013, we entered into a fifteen-year lease for a 76-unit assisted living community in Ohio. Base rent is initially \$1.1 million per year, increasing by 3.0% annually. We have options for three additional five-year terms. We are accounting for this transaction as an operating lease.

In June 2013, we sold one community to HCP and leased it back from HCP. The sale price was \$18.0 million and we used \$13.0 million of the proceeds to pay down mortgage debt. The lease with HCP is for an initial term of 15 years, with options for two additional ten-year terms. Because of continuing involvement in the property in the form of a purchase option, we are accounting for the lease as a financing lease, and therefore recorded the \$18.0 million of sales proceeds as a financing lease obligation.

In June 2013, we extended the term of a community operating lease for an additional 15 years, with two ten-year extensions available. In addition, we amended our right to exercise the purchase option on the property in exchange for a \$6.1 million cash payment from the lessor, which represented the difference between the current market value of the property and the purchase option price. The amended lease provides us with an option to purchase the community beginning in 2020.

In April 2013, we purchased a 20-unit assisted living community that we previously leased from Ventas, Inc. ("Ventas") (Note 6). The purchase price was \$3.9 million, and we accounted for the transaction as an asset purchase.

In March 2013, we entered into a 15-year lease for a 118-unit assisted living community in California. Base rent is initially \$1.8 million per year, increasing by 3.0% annually. We have the option to extend the lease term for an additional ten years. We are accounting for this transaction as an operating lease.

2012 HCP Transaction

Until late 2012, the Company held a 6.0% ownership interest in the Sunwest JV (Note 2). In October 2012, the Sunwest JV entered into a purchase and sale agreement with Emeritus and HCP, whereby the Sunwest JV agreed to sell to HCP 142 of its Properties, 133 of which were then leased to Emeritus and nine were sold to Emeritus for \$62.0 million (the "HCP Transaction"), with \$52.0 million financed with a loan from HCP (the "HCP Loan"). The HCP Leased Communities are operated by Emeritus under lease agreements with HCP (collectively, the "HCP Lease") and became, at the date of closing, part of the Company's Consolidated Portfolio. The Emeritus Nine Communities continue to be operated by Emeritus, except for one that is managed by an unrelated third party. During 2013, we sold four of the Emeritus Nine Communities and used the combined net proceeds of \$18.2 million to pay down the HCP Loan.

At the initial closing on October 30, 2012, the Sunwest JV sold 136 of the 142 Properties to HCP, which included the Emeritus Nine Communities that Emeritus then purchased from HCP. At the second closing on December 4, 2012, HCP purchased two more of the Properties, which were included in the HCP Leased Communities and became part of the HCP Lease as of that date. In the first quarter of 2013, the Sunwest JV closed on the sale of the remaining four HCP Leased Communities and they were added to the HCP Lease. The aggregate sales price payable to the Sunwest JV for the Properties was \$1.8 billion.

Final distributions were made by the Sunwest JV to its members in 2013 and Emeritus received, in total, cash of approximately \$139.0 million (\$89.7 million of which was received in 2012), comprised of approximately \$45.0 million for the Company's ownership interest in the Sunwest JV and a promote incentive payment of approximately \$94.0 million based on the final rate of investment return to the Sunwest JV's investors.

We are accounting for the HCP Lease as a financing obligation and our acquisition of the Emeritus Nine Communities as an asset purchase. Due to our ownership interest in the Sunwest JV, we are accounting for the acquisition of the HCP Leased Communities as a sale and leaseback. Because we currently expect to exercise all renewal options, we will have substantial

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continuing involvement in the HCP Leased Communities. As a result, in accordance with GAAP, we deferred the gain associated with our equity interest in the Sunwest JV and include it in the lease financing obligation. Lease payments are recorded to interest expense and the lease financing obligation using the effective interest method. As of December 31, 2013, the deferred gain was \$126.6 million, which represents our share of the cash proceeds from the sale through December 31, 2013, including the promote incentive, net of our investment in the Sunwest JV.

2013 Dispositions

In the fourth quarter of 2013, we sold two communities with a total of 203 units and used the aggregate net sales proceeds of \$8.0 million to pay off the related mortgage debt. We did not renew the lease on one community with 46 units. In the third quarter of 2013, we sold two communities representing a total of 185 units. Aggregate net sales proceeds of \$8.9 million were used to pay down outstanding debt. In the second quarter of 2013, we sold two communities and terminated the lease on one community, representing a total of 194 units. Aggregate sales proceeds of \$7.3 million were used to pay down outstanding debt. Impairment charges related to properties sold in 2013 and properties held for sale as of December 31, 2013 totaled \$11.3 million for the year ended December 31, 2013, which are included in loss from discontinued operations.

2012 Nurse On Call Acquisition and 2013 Buy-Out Agreement

In November 2012, we purchased Nurse On Call, Inc., the largest Medicare-licensed provider of home healthcare services in Florida. We paid cash of \$102.9 million (net of cash acquired) for 91.0% of the equity of NOC's parent company, and the remaining equity was initially owned by the Minority Members, comprised of certain members of NOC's management team. We acquired NOC in order to increase our service offerings to seniors, with the goal of expanding this platform beyond Florida. During the first quarter of 2013, the Minority Members received a \$3.9 million distribution from the proceeds of a \$50.0 million credit facility that NOC entered into in February 2013 (Note 5). We recorded this distribution as a reduction to additional paid-in capital.

In connection with the NOC acquisition, we entered into a put/call agreement, whereby the Minority Members had the right to require us to purchase certain of their equity interests beginning on January 1, 2016 (or earlier upon the occurrence of certain events). Likewise, we had the right to require any of the Minority Members to sell certain of their equity interests to us beginning on January 1, 2016 (or earlier, if any of the Minority Members cease to be an employee). The purchase price was based on a formula specified in the put/call agreement.

In December 2013, we entered into a buy-out agreement with the Minority Members, which resulted in the termination of the put/call agreement and our purchase of all of the Minority Members' equity interests. The purchase price was approximately \$10.1 million. We paid cash of \$5.1 million at signing and will make a second payment of approximately \$5.0 million in 2014. The second payment is subject to a true-up adjustment, which is based on the change in the valuation of NOC as determined by a specified formula in the buy-out agreement.

As of December 31, 2012, because the minority members still had a put right on that date, the equity held by the Minority Members was classified on the consolidated balance sheet as redeemable noncontrolling interest, which was outside of our permanent equity. The balance of redeemable noncontrolling interest as of December 31, 2012 was \$10.1 million, which represented the estimated redemption value as of that date.

2011 Blackstone JV Acquisition

On June 1, 2011, Emeritus and an affiliate of Blackstone completed the transactions whereby we acquired Blackstone's equity interest in the Blackstone JV (Note 2), which owned 24 assisted living communities (the "Blackstone JV Communities") comprised of approximately 1,897 units. Blackstone owned an 81.0% interest and we owned a 19.0% interest in such joint venture. We previously accounted for our 19.0% interest in the Blackstone JV as an equity method investment.

We previously operated the Blackstone JV Communities on behalf of the Blackstone JV under management agreements between us and each of the Blackstone JV Communities (the "Blackstone JV Management Agreements"). As a result of the completion of the acquisition of the Blackstone JV Communities, each of the Blackstone JV Management Agreements was terminated. The Blackstone JV Management Agreements provided for management fees equal to 5.0% of gross collected revenues. We earned management fees of approximately \$1.5 million in the year ended December 31, 2011 related to these agreements. The Blackstone JV Communities incurred no management fee expense from us subsequent to June 1, 2011, and

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our management fee revenue and the Blackstone JV management fee expense have been eliminated in the pro forma operating results below.

Pro Forma NOC and Blackstone JV

The following table sets forth the effect on our results of operations had the acquisition of NOC and the Blackstone JV Communities occurred as of January 1, 2011, excluding a related \$42.1 million gain on acquisition (in thousands, except per share):

| | Pro Forma Combined | | |
|---|--------------------------------|------------------|------------------|
| | (unaudited) | | |
| | Year Ended December 31, | | |
| | 2013 | 2012 | 2011 |
| Total operating revenues | \$ 1,960,618 | \$ 1,695,291 | \$ 1,653,005 |
| Operating income from continuing operations | 142,354 | 111,932 | 82,103 |
| Loss from continuing operations before income taxes | (141,231) | (65,140) | (73,435) |
| Net loss attributable to Emeritus Corporation common shareholders | (152,561) | (71,456) | (95,669) |
| Basic and diluted loss per common share attributable to Emeritus Corporation common shareholders: | | | |
| Continuing operations | \$ (3.04) | \$ (1.43) | \$ (1.67) |
| Discontinued operations | (0.24) | (0.17) | (0.49) |
| | <u>\$ (3.28)</u> | <u>\$ (1.60)</u> | <u>\$ (2.16)</u> |
| Basic and diluted weighted average common shares outstanding | 46,553 | 44,680 | 44,312 |

Other business combinations in 2013, 2012 and 2011 were not material to our consolidated financial statements. Therefore, we have not disclosed pro forma financial information related to these acquisitions.

Other 2011 Acquisitions and Dispositions

During 2011, we purchased six assisted living communities with a total of 536 units. The aggregate purchase price was \$83.0 million and we financed these purchases with mortgage debt totaling \$62.4 million and cash on hand. We accounted for these acquisitions as business combinations.

During 2011, we sold eight communities with a total of 825 units and used the net proceeds to retire the related mortgage debt.

Note 5. Goodwill and Other Intangible Assets and Liabilities

Goodwill

We recorded goodwill and various other intangible assets in connection with acquisitions accounted for as business combinations (Note 4). Additionally, we recorded reductions of goodwill as a result of sales of communities. The change in the carrying value of goodwill during 2013 and 2012 is set forth below (in thousands):

| | |
|--|-------------------|
| Balance at December 31, 2011 | \$ 118,725 |
| Goodwill acquired during the year | 68,562 |
| Goodwill allocated to sales of communities | (531) |
| Balance at December 31, 2012 | 186,756 |
| Goodwill acquired during the year | 3,357 |
| Goodwill allocated to sales of communities | (487) |
| Balance at December 31, 2013 | <u>\$ 189,626</u> |

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Other Intangible Assets and Liabilities

Our intangible assets and liabilities other than goodwill consisted of the following as of December 31, 2013 (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
|--|--------------------------------------|-------------------------------------|---------------------------|
| Trade name | \$ 26,300 | \$ — | \$ 26,300 |
| Below market community rents | 69,326 | (38,912) | 30,414 |
| Lease purchase options | 44,162 | — | 44,162 |
| Operating and Medicare licenses | 16,234 | (606) | 15,628 |
| Referral and distribution relationships | 7,700 | (866) | 6,834 |
| Non-solicitation agreements | 500 | (281) | 219 |
| Other intangible assets | <u>\$ 164,222</u> | <u>\$ (40,665)</u> | <u>\$ 123,557</u> |
| Above market community rents (included in other long-term liabilities) | \$ (13,549) | \$ 7,762 | \$ (5,787) |

In connection with our acquisition of NOC, we recorded intangible assets for Medicare licenses, trade name, distribution relationships, and non-solicitation agreements. We believe that the Medicare licenses and the NOC trade name have indefinite lives, and therefore we are not amortizing these assets but will test them for impairment as required by GAAP. We are amortizing the distribution relationship and non-solicitation agreement intangibles over their estimated useful lives of ten years and two years, respectively.

Our intangible assets and liabilities other than goodwill consisted of the following as of December 31, 2012 (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
|--|--------------------------------------|-------------------------------------|---------------------------|
| In-place resident contracts | \$ 14,185 | \$ (13,418) | \$ 767 |
| Trade name | 26,300 | — | 26,300 |
| Below market community rents | 70,525 | (33,297) | 37,228 |
| Lease purchase options | 44,269 | — | 44,269 |
| Operating and Medicare licenses | 16,361 | (519) | 15,842 |
| Referral and distribution relationships | 7,410 | (314) | 7,096 |
| Non-solicitation agreements | 500 | (31) | 469 |
| Other intangible assets | <u>\$ 179,550</u> | <u>\$ (47,579)</u> | <u>\$ 131,971</u> |
| Above market community rents (included in other long-term liabilities) | \$ (13,961) | \$ 6,705 | \$ (7,256) |

We recorded in-place resident contract intangibles in connection with the purchase of communities totaling \$15.8 million in 2011, which were fully amortized in 2013.

We acquired above and below market rent, lease purchase option, trademark and operating license intangibles in our acquisition of Summerville Senior Living, Inc. ("Summerville") in September 2007. The weighted average amortization periods assigned at the merger date were as follows: below market rents, 11 years; above market rents, 11.6 years; trademarks, 12 years and operating licenses, 12 years. The lease purchase options are not currently amortized, but will be added to the cost basis of the related communities when the option is exercised, and will then be depreciated over the estimated useful life of the community.

Aggregate amortization expense for intangibles, excluding above and below market rents, was \$1.6 million for 2013, \$9.9 million for 2012, and \$6.9 million for 2011. Above and below market rent amortization, a component of lease expense in the consolidated statements of operations, was \$4.9 million for 2013, \$6.3 million for 2012, and \$7.5 million for 2011.

Estimated amortization of intangibles is as follows (in thousands):

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| | |
|--------------|------------------|
| 2014 | \$ 5,633 |
| 2015 | 3,959 |
| 2016 | 4,013 |
| 2017 | 4,476 |
| 2018 | 4,417 |
| Thereafter | 9,710 |
| Total | \$ 32,208 |

Note 6. Long-Term Debt

Long-term debt consists of the following (dollars in thousands).

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Agency mortgages payable due 2014 through 2022, weighted average interest rate of 6.08% in 2013 and 6.13% in 2012 | \$ 1,120,670 | \$ 1,107,224 |
| Other mortgages due 2014 through 2047, weighted average interest rate of 5.11% in 2013 and 5.4% in 2012 | 309,480 | 389,539 |
| Notes payable due 2017, weighted average interest rate of 6.19% in 2013 and 8.93% in 2012 | 67,676 | 110,691 |
| Automobile and equipment loans | 405 | 863 |
| Total long-term debt | 1,498,231 | 1,608,317 |
| Less current portion | 152,989 | 49,381 |
| Long-term debt, less current portion | \$ 1,345,242 | \$ 1,558,936 |

Mortgage loans are secured by community real estate. Of the outstanding debt at December 31, 2013, we had \$1.2 billion of fixed-rate debt with a weighted average interest rate of 6.13% and \$316.1 million of variable rate debt with a weighted average interest rate of 4.99%.

Agency mortgages represent loans originated by lending institutions and sold to Freddie Mac or Fannie Mae. These loans have primarily fixed rates of interest. Monthly payments of principal and interest are generally based on a 25- or 30-year amortization period with unpaid principal due at maturity, which is generally 10 years from the issuance date.

Other mortgages represent loans through traditional financial lending institutions. The interest rates are primarily variable, based on the London Interbank Offered Rate (“LIBOR”) plus a spread. Of these other mortgages, we have variable rate debt of \$235.3 million that has LIBOR floors. At December 31, 2013, this debt carried a weighted average floor of 1.08% and a weighted average spread of 4.02%, for a total weighted average rate of 5.10%. The LIBOR floors effectively make this debt fixed rate debt as long as the monthly LIBOR is less than the 1.08% weighted average floor.

Notes payable represent the NOC credit facility (described below) as well as mezzanine debt financing provided by real estate investment trusts (“REITs”) to facilitate real estate acquisitions. The REIT notes are unsecured or are secured by mortgages on leasehold interests in community lease agreements between the specific REIT and Emeritus. Interest on these notes increases annually based on fixed schedules.

Long-Term Debt Activity in 2013

NOC Credit Facility

In February 2013, NOC and its subsidiaries (the “NOC Entities”) entered into a \$50.0 million syndicated credit facility with KeyBank National Association and certain other lenders. The credit facility consisted of a \$50.0 million term loan, the proceeds of which were being used primarily to finance its expansion, to refinance existing indebtedness of Emeritus, and other general corporate purposes.

The loan has a four-year term, maturing in February 2017, and the interest accrues, at the election of NOC, at a base rate or LIBOR, plus an applicable spread based on the NOC Entities’ total leverage ratio. As of December 31, 2013, the interest rate is

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equal to LIBOR plus 4.75%. Principal of the term loan is payable quarterly in equal installments of \$1.9 million. The NOC Entities paid loan fees and related expenses of \$814,000 in connection with establishing the credit facility.

The credit facility is secured by substantially all of the personal property of the NOC Entities and by NOC's stock, and is cross-collateralized and cross-defaulted with existing KeyBank loans to Emeritus. In addition, Emeritus, affiliates of Emeritus and NOC's parent company guaranty the payment and performance of the NOC Entities under the credit facility. The credit agreement underlying the credit facility contains usual and customary events of default and affirmative and negative covenants that, among other things, place limitations on the NOC Entities' ability to create or allow liens to exist, issue equity, pay dividends, transact with affiliates and make asset dispositions and investments. The credit agreement also contains financial covenants of the NOC Entities measured on a consolidated basis that include a debt service coverage ratio, total leverage ratio and minimum required levels of liquidity and net worth. Emeritus, as guarantor, must maintain specified fixed charge coverage ratios on a consolidated basis and a minimum of \$20.0 million of liquidity as of the last day of each fiscal quarter. The balance of this loan is \$46.3 million at December 31, 2013.

Debt Refinancing

In December 2013, we refinanced the mortgage loans on two communities, with a combined outstanding principal balance of \$11.4 million, with new loans totaling \$14.3 million. The new loans bear interest at LIBOR plus 3.36%. Payments are interest only through January 2015, and are principal and interest thereafter based on a 30-year amortization with the balance due at maturity in January 2021. As required by the lender, we purchased interest rate caps on each loan, which effectively cap the LIBOR at 2.74% (Note 14).

In July 2013, we refinanced the mortgage debt on three communities with a combined outstanding principal balance of \$17.5 million. The new mortgages total \$17.9 million, were purchased by Freddie Mac, and bear interest at a fixed rate of 5.17%. Monthly payments of principal and interest are \$98,000 and the loans mature in August 2020.

Debt Repayments

In May 2013, we repaid a \$30.0 million note payable with a maturity date of March 2017 to a subsidiary of Ventas. The interest rate on the note was 8.80%.

In March 2013, we reduced the principal balance of a note payable to HCN from \$45.8 million to \$15.8 million, and in July 2013 repaid the outstanding balance of \$15.2 million. The maturity date of the note was July 2014 and bore interest at 8.77%. In January 2013, we retired a note payable to HCN with an outstanding principal balance of \$12.9 million and an interest rate of 9.99%, with a maturity date of September 2018.

Debt and Lease Covenants

Our lease and loan agreements generally include customary provisions related to: (i) restrictions on cash dividends, investments, and borrowings; (ii) cash held in escrow for real estate taxes, insurance, and building maintenance; (iii) financial reporting requirements; and (iv) events of default. Certain loan agreements require the maintenance of debt service coverage or other financial ratios and specify minimum required annual capital expenditures at the related communities. Many of our lease and debt instruments contain "cross-default" provisions pursuant to which a default under one obligation can cause a default under one or more other obligations to the same lender or property owner. Such cross-default provisions affect the majority of our properties. Accordingly, an event of default could cause a material adverse effect on our financial condition if such debts/leases are cross-defaulted. As of December 31, 2013, we were in violation of a financial covenant in one lease agreement covering four communities. We obtained a waiver from the landlord through December 31, 2013 and we are therefore in compliance with this financial covenant.

As of December 31, 2012, we were not in compliance with certain financial covenants required by our master lease agreement with Ventas. In February 2013, we received a waiver of these violations through January 1, 2014 in connection with the modification of the master lease. Such modifications include a resetting of the lease coverage ratios, the ability to cure up to four lease coverage shortfalls with cash deposits, and an extension of the period allowed for us to exercise purchase options. In addition, in accordance with a put option provision in the master lease related to two communities, in April 2013, we purchased one of the communities from Ventas for the option price of \$3.9 million. The difference between the option price and our estimate of the fair value of the community was \$2.3 million, which we recorded as additional rent expense and a current

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liability as of December 31, 2012. The other community remains subject to a put option if certain financial covenants are not met, beginning in the first quarter of 2014.

Principal maturities of long-term debt at December 31, 2013, are as follows (in thousands):

| | | |
|------------|----|------------------|
| 2014 | \$ | 152,989 |
| 2015 | | 48,788 |
| 2016 | | 225,731 |
| 2017 | | 266,393 |
| 2018 | | 538,302 |
| Thereafter | | 266,028 |
| Total | \$ | <u>1,498,231</u> |

Note 7. Shareholders' Equity

On March 18, 2013, pursuant to an underwritten secondary public offering, certain shareholders completed the sale of 7,973,600 shares of our common stock held by them. On the same date, in connection with the underwriter's exercise of its option to purchase additional shares of our common stock, the Company sold 1,196,040 newly issued shares to the underwriter and received net cash proceeds of \$31.3 million.

Note 8. Related-Party Agreements

In 1995, Mr. Baty and a former director of Emeritus formed a New York general partnership (the "Partnership") to facilitate the operation of assisted living communities in the state of New York, which generally requires that natural persons be designated as the licensed operators of assisted living communities. The Partnership operates ten communities in New York. We have agreements with the Partnership and the partners under which all of the Partnership's profits have been assigned to us and we have indemnified the partners against losses. Because we have unilateral and perpetual control over the Partnership's assets and operations, we include the Partnership in our consolidated financial statements. In 2011, the Partnership's equity interests were transferred to Granger Cobb, the Company's President and Chief Executive Officer.

Mr. Baty is a principal owner of Columbia Pacific, which owns assisted living communities. We manage six of these communities under various agreements. One of the agreements provides for a flat monthly rate while the others provide for fees of 5.0% of gross operating revenues. The agreements have terms ranging from two to five years, with options to renew. For two of the six communities, we are entitled to distributions upon a sale to a third party or purchase by Emeritus if the communities achieve certain performance criteria. Management fee revenue earned under these agreements was approximately \$1.0 million, \$778,000, and \$832,000 in 2013, 2012, and 2011, respectively.

Emeritus and Mr. Baty are parties to a cash flow sharing agreement ("CFSA") related to, as of December 31, 2013, seven assisted living communities that are included in our consolidated financial statements. We entered into the CFSA in 2004 in connection with Mr. Baty's guarantee of our obligations under a lease agreement with HCN for 18 communities (the "CFSA Communities"). Under the terms of the CFSA, Mr. Baty shares in 50.0% of the positive cash flow (as defined) and is responsible for 50.0% of the cash deficiency for these communities. Additionally, we have the right to purchase Mr. Baty's 50.0% interest in the cash flow of the communities based on a prescribed formula. Under the CFSA, Emeritus received \$1.6 million, \$364,000, and \$132,000 from Mr. Baty for 2013, 2012 and 2011, respectively, which is included in community operations expense in our consolidated statements of operations.

Emeritus and Mr. Baty each hold a 50.0% ownership interest in a consolidated joint venture (the "Batus JV"), which purchased eight of the CFSA Facilities from HCN in 2008. The net loss attributable to the noncontrolling interest in our consolidated statements of operations includes Mr. Baty's share of the Batus JV's net loss from continuing operations. We have the option to buy out Mr. Baty's membership interest in all or part of the Batus JV, for a price equal to the lesser of fair market value or a formula specified in the Batus JV operating agreement but in no event less than the amount of Mr. Baty's capital contribution.

In November 2013, we exercised our option to purchase Mr. Baty's rights related to two of the CFSA Communities (the "2013 Buyout") for \$3.0 million, which is included in transaction costs in the consolidated statement of operations. In February 2011 and November 2011, we exercised our option to purchase Mr. Baty's rights related to a total of nine of the CFSA Communities

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(the “2011 Buyouts”). Five of the nine communities in the 2011 Buyouts were owned by the Batus JV, and the 2011 Buyouts also included our purchase of Mr. Baty’s equity interest in these five communities. We paid to Mr. Baty a total of \$14.5 million in cash under the terms of the 2011 Buyouts, of which we recorded \$7.8 million to transaction costs and decreased total shareholders’ equity by \$6.7 million. This allocation approximated the relative fair value of the two elements in the transactions, which were the CFSA and the equity interest in Batus JV, respectively. The amount of the payments to Mr. Baty for the 2013 Buyout and the 2011 Buyouts were based on predetermined formulas in the joint venture agreement and the CFSA.

Note 9. Stock Plans

As of December 31, 2013, we have two equity incentive plans under which equity awards are outstanding: the Amended and Restated 2006 Equity Incentive Plan (the “2006 Plan”) and the Amended and Restated Stock Option Plan for Non-employee Directors (the “Directors Plan”). The Amended and Restated 1995 Stock Incentive Plan expired in 2005 and no options remain outstanding under that plan.

We record compensation expense based on the fair value for all stock-based awards, which amounted to \$14.5 million, \$11.0 million, and \$8.1 million for the years ended December 31, 2013, 2012, and 2011 respectively.

The 2006 Plan

Through our 2006 Plan, a total of 8,834,000 shares of Emeritus common stock may be issued to employees, non-employee directors, consultants, advisors, and independent contractors. The 2006 Plan allows for the granting of various types of awards, including stock options, stock appreciation rights, restricted stock, and other types of stock-based awards. As of December 31, 2013, 2,599,637 shares are available for awards under the 2006 Plan.

The Directors Plan

The Directors Plan is a nonqualified stock option plan that has been in effect since 1995. In May 2013, our shareholders approved an amendment to the 2006 Plan, whereby our board of directors terminated the Directors Plan, and therefore no new grants will be made under the plan. Shares previously available for issuance under the Directors Plan, but not issued under that plan, are available for issuance under the 2006 Plan. Future equity awards to directors will be made under the amended 2006 Plan.

Under the director equity award program administered under the amended 2006 Plan, immediately following each year’s annual meeting of shareholders, each non-employee director automatically receives an award of restricted stock having a value equal to \$90,000, based on the fair market value of the common stock on the grant date. The restricted stock fully vests on the day immediately prior to the annual shareholders meeting that follows the date of grant. In the event of a change in control, the annual restricted stock grant becomes fully vested.

Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan (the “2009 ESP Plan”) provides eligible employees an opportunity to purchase shares of Emeritus common stock through payroll deductions at a 15.0% discount from the lower of the market price on the first trading day or last trading day of each calendar quarter. A total of 400,000 shares may be sold under the 2009 ESP Plan. Shares sold under the 2009 ESP Plan may be drawn from authorized and unissued shares or may be acquired by us on the open market. As of December 31, 2013, there were 169,490 shares available for purchase under the 2009 ESP Plan.

Stock Options

Stock options issued to employees generally vest over a four-year period. Any unexercised options expire between seven and ten years from the date of the grant.

The following is a summary of stock options outstanding and exercisable under the 2006 Plan and the Directors Plan as of December 31, 2013:

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| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---|---------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price |
| \$ 3.95 - \$ 16.00 | 575,039 | 7.02 | \$ 14.04 | 356,788 | 6.46 | \$ 12.83 |
| \$ 16.01 - \$ 17.39 | 553,825 | 6.16 | \$ 16.57 | 548,200 | 6.15 | \$ 16.57 |
| \$ 17.40 - \$ 18.03 | 734,000 | 6.89 | \$ 18.03 | 521,199 | 6.89 | \$ 18.03 |
| \$ 18.04 - \$ 26.02 | 1,279,450 | 8.39 | \$ 21.22 | 551,683 | 6.99 | \$ 20.96 |
| \$ 26.03 - \$ 27.40 | 847,500 | 0.69 | \$ 27.40 | 847,500 | 0.69 | \$ 27.40 |
| \$ 3.95 - \$ 27.40 | <u>3,989,814</u> | 5.97 | \$ 20.27 | <u>2,825,370</u> | 4.85 | \$ 20.47 |

Our closing stock price on December 31, 2013 was \$21.63. The following table summarizes our stock option activity:

| | 2013 | | | 2012 | | | 2011 | | |
|--|---------------------------|---------------------------------|-----------------------------------|---------------------------|---------------------------------|-----------------------------------|---------------------------|---------------------------------|-----------------------------------|
| | Shares Underlying Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (\$000) | Shares Underlying Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (\$000) | Shares Underlying Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (\$000) |
| Outstanding at beginning of period | 4,401,418 | \$ 19.46 | \$ 25,568 | 4,470,939 | \$ 18.52 | \$ 6,825 | 3,954,793 | \$ 17.71 | \$ 15,130 |
| Granted | 438,350 | 20.38 | | 496,500 | 22.10 | | 957,950 | 18.02 | |
| Exercised | (658,691) | 15.18 | 7,663 | (407,096) | 13.05 | 3,702 | (301,729) | 6.85 | 3,264 |
| Forfeited/expired | (191,263) | 19.58 | | (158,925) | 17.52 | | (140,075) | 17.39 | |
| Outstanding at end of period | <u>3,989,814</u> | 20.27 | 10,977 | <u>4,401,418</u> | 19.46 | 25,568 | <u>4,470,939</u> | 18.52 | 6,825 |
| Options exercisable | 2,825,370 | 20.47 | 8,409 | 2,779,992 | 19.83 | 16,038 | 2,358,563 | 19.90 | 4,289 |
| Weighted average grant date fair value | | 9.95 | | | 11.77 | | | 9.76 | |
| Options exercisable in the money | 1,803,062 | | 8,409 | 1,859,992 | | 16,038 | 795,693 | | 4,289 |
| Options exercisable out of the money | 1,022,308 | | — | 920,000 | | — | 1,562,870 | | — |

As of December 31, 2013, there was \$10.2 million of total unrecognized compensation expense related to unvested stock options. We expect to recognize that expense through 2017. At December 31, 2013, the weighted average remaining contractual life was 5.97 years for all stock options outstanding and was 4.85 years for stock options outstanding and exercisable.

We received \$10.9 million, \$6.1 million, and \$2.9 million during 2013, 2012, and 2011, respectively, from the exercise of stock options and employee stock purchases.

In estimating the fair value of the Company's stock options, we group the grantees into two main categories, based on the estimated life of the options, which are our employees and our board of directors. We estimated the fair value of options granted during 2013, 2012, and 2011 at the date of grant using the following weighted average assumptions:

| | For Employees and Key Executives | | |
|--|----------------------------------|----------|---------------|
| | Year ended December 31, | | |
| | 2013 | 2012 | 2011 |
| Expected life from grant date (in years) | 5 | 5 | 5 |
| Risk-free interest rate | 1.3% | 0.6% | 0.8% - 2.2% |
| Volatility | 56.3% | 63.4% | 62.4% - 64.4% |
| Weighted average fair value (per share) | \$ 9.95 | \$ 12.13 | \$ 9.58 |

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| | For Directors | |
|--|--------------------------------|---------------|
| | Year ended December 31, | |
| | 2012 | 2011 |
| Expected life from grant date (in years) | 7 | 7 |
| Risk-free interest rate | 1.3% | 2.5% - 2.9% |
| Volatility | 57.0% | 56.0% - 56.5% |
| Weighted average fair value (per share) | \$ 9.11 | \$ 12.69 |

Our non-employee directors received grants of restricted stock in 2013 rather than stock options, as described below. For stock options granted in 2012 and 2011, we estimated the expected life of the stock options granted using the historical exercise behavior of option holders. The risk-free rate represents the five-year or seven-year U.S. Treasury yield in effect at the time of grant. We estimated expected volatility based on historical volatility for a period equal to the stock option's expected life, ending on the date of grant. We estimated forfeitures at the time of valuation and reduced compensation expense ratably over the vesting period. We periodically adjust the forfeiture rate, which represents the estimated percentage of options granted that will not vest, at 5.2% for directors, 0% for executives, and 18.8% for other employees as of December 31, 2013. Our options have characteristics significantly different from those of traded options and changes in the various input assumptions can materially affect the fair value estimates.

Restricted Stock

The following table summarizes our restricted stock activity for the periods indicated:

| | 2013 | | 2012 | | 2011 | |
|---------------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| | Weighted | | Weighted | | Weighted | |
| | Average | | Average | | Average | |
| | Grant Date | | Grant Date | | Grant Date | |
| | Number | Fair | Number | Fair | Number | Fair |
| | of Shares | Value | of Shares | Value | of Shares | Value |
| Outstanding at beginning of period | 801,172 | \$ 19.27 | 435,000 | \$ 16.17 | — | \$ — |
| Granted | 396,512 | 22.11 | 366,172 | 22.94 | 435,000 | 16.17 |
| Vested | (108,750) | 16.17 | — | — | — | — |
| Outstanding unvested at end of period | 1,088,934 | 20.61 | 801,172 | 19.27 | 435,000 | 16.17 |

The fair value of the shares was based on the market price of Emeritus common stock on the grant dates. The shares granted to employees vest over four years if specified annual Company performance goals are met. After the first year following the grants, shares that do not vest because the performance goals were not met in the initial year may vest in the following three years of the performance period based on cumulative annual results.

In 2013, the Company issued a total of 24,787 restricted shares to its non-employee directors under the 2006 Plan. These shares fully vest on the day immediately prior to the annual shareholders meeting that follows the date of grant.

As of December 31, 2013, total unrecognized compensation expense related to unvested restricted stock was approximately \$13.6 million.

Employee Stock Purchases

In 2013, 2012, and 2011, we sold 52,392, 52,730, and 59,314 shares to employees under the 2009 ESP Plan at an average price of \$20.59, \$15.32, and \$14.07 per share, respectively.

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The following table shows the assumptions used in calculating the compensation expense for shares of Emeritus common stock sold to employees during each year under the 2009 ESP Plan, which incorporates the 15.0% discount and an estimated value assigned to the ability to select the lower of the stock price over a three-month period at the beginning or end of the respective quarter:

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2013 | 2012 | 2011 |
| Expected life from grant date (in months) | 3 | 3 | 3 |
| Risk-free interest rate | 0.01% - 0.08% | 0.03% - 0.11% | 0.02% - 0.18% |
| Volatility | 15.10% - 19.98% | 18.03% - 28.03% | 14.82% - 31.43% |

Note 10. Retirement Plans

We provide a 401(k) retirement savings plan (the “401(k) Plan”) to all employees who meet minimum employment criteria. The 401(k) Plan allows participants to defer eligible compensation on a pre-tax basis subject to certain Internal Revenue Code maximum amounts. The 401(k) Plan allows us to make a discretionary match of up to 100.0% of the employee’s contribution to the 401(k) Plan, up to a maximum of 8.0% of contributed compensation. Historically, we have made a discretionary match of contributions in amounts equal to 25.0% of the employee’s contribution to the 401(k) Plan, up to a maximum of 6.0% of contributed compensation. Employees are always 100.0% vested in their own contributions and vest in our contributions over four years. We estimate that we will contribute to the 401(k) Plan \$857,000 for the year ended December 31, 2013, and we made contributions to the 401(k) Plan in the amount of \$788,000 and \$623,000 for the years ended December 31, 2012 and 2011, respectively. Such amounts are included in general and administrative expense in the accompanying consolidated statements of operations.

We also provide a nonqualified deferred compensation plan (the “Deferred Plan”) that allows certain management employees, including our executive officers, to defer a portion of their compensation. Executive officers participating in the Deferred Plan may defer receipt of up to 25.0% of their compensation and receive a mandatory employer contribution of 25.0% of their contributions that is immediately vested. In addition, there is a discretionary employer contribution of up to an additional 75.0% of their contributions. Participants other than executive officers may defer receipt of up to 10.0% of their compensation and receive a discretionary employer contribution.

Discretionary employer contributions to the Deferred Plan for both executive officers and other participants become nonforfeitable upon the earlier of: (i) vesting based on three years of service; (ii) the participant reaching normal retirement age or death; or (iii) a change in control of Emeritus. The discretionary employer contribution must be approved by the Compensation Committee of the board of directors. We estimate that employer contributions to the Deferred Plan will be \$533,000 for the year ended December 31, 2013. Employer contributions totaled \$351,000 and \$271,000 for the years ended December 31, 2012 and 2011, respectively. Deferred Plan assets amounted to \$7.4 million and \$4.9 million at December 31, 2013 and 2012, respectively, and are stated as short-term investments in the consolidated balance sheets with a corresponding balance in other long-term liabilities.

Note 11. Contingencies

Legal Proceedings

The Company has been, is currently, and expects in the future to be involved in claims, lawsuits, and regulatory and other governmental audits, investigations and proceedings arising in the ordinary course of business. These claims, lawsuits and other matters are similar to those to which other companies in the senior living and healthcare industries are subject. The defense of these claims, lawsuits and governmental audits, investigations and proceedings, certain of which allege large damage amounts, may require us to incur significant expense.

We utilize a combination of self-insurance and commercial insurance policies in amounts and with coverage and deductibles that we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. We cannot predict the ultimate outcome of any pending litigation, claims, or regulatory and other governmental audits, investigations and proceedings. Certain of these matters are not covered by insurance, and, in any event, there is no assurance

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that our actual costs or damages related to any such matter will not exceed self-insurance accruals or applicable insurance policy limits. Payment for self-insurance claims is made from the Company's available cash resources.

On June 4, 2013, in *Joan Boice et al. v. Emeritus Corporation et al.*, the Sacramento County Superior Court entered final judgment in favor of Joan Boice (deceased) and against the Company in the amount of \$250,000 in compensatory damages and \$23.0 million in punitive damages for alleged elder abuse. Judgment was also entered in favor of Joan Boice's three adult children for \$250,000 and the court awarded the plaintiffs' lawyer over \$4.1 million in attorneys' fees. On July 8, 2013, we filed a Notice of Appeal. We were required to post a bond in connection with our appeal, and made a cash deposit in the amount of \$20.9 million to collateralize the bond, which is included in restricted deposits and escrows in the consolidated balance sheet as of December 31, 2013. This matter has been taken into consideration in our self-insurance accruals.

On July 29, 2013, a claim alleging the failure to provide certain services at our California assisted living communities was filed against the Company in the Alameda County Superior Court and subsequently removed to the United States District Court for the Northern District of California. In this case, the plaintiff is seeking to represent a class of residents at such California communities during the period beginning July 29, 2009. The plaintiff alleges violations of certain laws, including California's Consumer Legal Remedies Act, Unfair Competition Law and Financial Elder Abuse statute. The Company believes that the suit is without merit and has filed a motion to dismiss the action in its entirety. At this time the Company is unable to estimate a possible range of loss.

Self-Insurance Accruals

As of December 31, 2013 and December 31, 2012, we have recorded a liability related to self-insured professional and general claims, including known claims, incurred but not yet reported claims, and legal fees, of \$36.1 million and \$25.8 million, respectively. We believe that the range of reasonably possible losses as of December 31, 2013, based on sensitivity testing of the various underlying actuarial assumptions, is approximately \$34.5 million to \$52.4 million. The high end of the range reflects the potential for high-severity losses.

Communities not in the self-insurance pool are insured under commercial policies that provide for deductibles for each claim ranging from \$50,000 to \$250,000. As a result, the Company is, in effect, self-insured for claims that are less than the deductibles. The net liability for known claims and incurred but not yet reported claims was \$8.9 million and \$6.3 million as of December 31, 2013 and December 31, 2012, respectively (the gross liability was \$16.5 million and \$25.0 million with corresponding estimated amounts receivable from the insurance companies of \$7.6 million and \$18.7 million, respectively).

The total gross liability for professional and general claims as of December 31, 2013 and December 31, 2012 was \$52.6 million and \$50.8 million, respectively, of which \$17.2 million and \$21.2 million is included in accrued insurance liabilities, with the balance recorded in other long-term liabilities. Of the related amounts receivable from insurance companies as of December 31, 2013 and December 31, 2012, \$3.0 million and \$8.6 million, respectively, is included in other receivables and \$4.6 million and \$10.1 million, respectively, is included in other assets, net, in the consolidated balance sheets.

We are self-insured for workers' compensation risk (except in five states) up to \$500,000 per claim through a high deductible, collateralized insurance program. The liability for self-insured known claims and incurred but not yet reported claims was \$44.5 million and \$38.3 million at December 31, 2013 and December 31, 2012, respectively, of which \$13.1 million and \$12.2 million is included in accrued insurance liabilities as of December 31, 2013 and December 31, 2012, respectively, with the balance recorded in other long-term liabilities. We believe that the range of reasonably possible losses as of December 31, 2013, based on sensitivity testing of the various underlying actuarial assumptions, is approximately \$42.8 million to \$48.3 million.

For health insurance, we self-insure each participant up to \$350,000 per year, above which a catastrophic insurance policy covers any additional costs. The liability for self-insured incurred but not yet reported claims is included in accrued insurance liabilities in the consolidated balance sheets and was \$8.5 million and \$10.0 million at December 31, 2013 and December 31, 2012, respectively.

Leases

As of December 31, 2013, we leased office space for our executive offices, certain of our regional offices and NOC offices. We also leased 311 of our communities. We account for the leases for the executive offices, all regional and NOC offices and 116 of

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the communities as operating leases. The community leases are triple-net leases in which we pay all operating expenses of the property, including taxes, licenses, utilities, maintenance, and insurance, in addition to the rent. These leases expire from 2014 to 2056 and contain various and multiple extension options, ranging from one to 15 years. The lease for our 77,000 square-foot executive office in Seattle, Washington expires in September 2025.

Community lease expense under noncancelable operating leases was as follows (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2013 | 2012 | 2011 |
| Contractual operating lease expense | \$ 142,498 | \$ 114,382 | \$ 108,627 |
| Noncash straight-line lease expense | 4,788 | 6,080 | 8,792 |
| Noncash amortization of above/below market rents | 4,930 | 6,299 | 7,532 |
| Community lease expense | <u>\$ 152,216</u> | <u>\$ 126,761</u> | <u>\$ 124,951</u> |

Minimum future lease payments under noncancelable operating leases at December 31, 2013, are as follows (in thousands):

| | |
|------------|---------------------|
| 2014 | \$ 179,907 |
| 2015 | 181,463 |
| 2016 | 183,429 |
| 2017 | 180,718 |
| 2018 | 180,661 |
| Thereafter | 963,806 |
| Total | <u>\$ 1,869,984</u> |

A few of our operating leases provide for additional lease payments computed as a percentage of revenues of the corresponding community, which are not included in the table above. Additional community lease expense under these provisions was approximately \$335,000, \$500,000 and \$747,000 for 2013, 2012, and 2011, respectively.

Minimum future lease payments under noncancelable capital leases and financing obligations, consisting of 190 communities at December 31, 2013, are as follows (in thousands):

| | |
|---|---------------------|
| 2014 | \$ 195,544 |
| 2015 | 205,031 |
| 2016 | 211,419 |
| 2017 | 217,506 |
| 2018 | 232,787 |
| Thereafter | 5,855,614 |
| Subtotal | <u>6,917,901</u> |
| Less imputed interest at rates ranging between 3.4% and 10.9% | (4,402,406) |
| Capital and financing lease obligations | <u>2,515,495</u> |
| Less current portion | 33,565 |
| Capital and financing lease obligations, less current portion | <u>\$ 2,481,930</u> |

Community interest expense under noncancelable capital leases and financing obligations was approximately \$189.8 million, \$74.0 million, and \$53.5 million for 2013, 2012, and 2011, respectively.

Guarantee

Emeritus has provided an indirect guarantee of the construction loan payable by one of our Wegman joint ventures ("Vestal"). Emeritus has a 50.0% ownership interest in Vestal, which we account for as an unconsolidated equity method investment. As of December 31, 2013, the loan balance for Vestal was \$7.0 million with a variable interest rate at LIBOR (floor of 1.5%) plus 4.0%. Wegman has provided an unconditional guarantee of payment to the lender and is indemnified by Emeritus through a separate agreement. In the event that we would be required to repay this loan, our share of the obligation would be 50.0%.

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Note 12. Income Taxes

Our income tax benefit (provision) is as follows (in thousands):

| | Year Ended December 31, | | |
|--------------------------------------|-------------------------|-----------------|-------------------|
| | 2013 | 2012 | 2011 |
| Federal | \$ 278 | \$ 167 | \$ 15 |
| State and local | (1,715) | (3,919) | (1,034) |
| Total current income tax provision | <u>(1,437)</u> | <u>(3,752)</u> | <u>(1,019)</u> |
| Deferred - federal | 726 | 4,141 | — |
| Deferred - state and local | 72 | 769 | — |
| Total deferred income taxes | <u>798</u> | <u>4,910</u> | <u>—</u> |
| Total income tax benefit (provision) | <u>\$ (639)</u> | <u>\$ 1,158</u> | <u>\$ (1,019)</u> |

The benefit of (provision for) income taxes from continuing operations differs from the expected benefit (provision) computed by applying the U.S. federal statutory rate of 35.0% in 2013 and 34.0% in 2012 and 2011 to loss from continuing operations before income taxes as follows (in thousands):

| | Year Ended December 31, | | |
|---------------------------------------|-------------------------|-----------------|-------------------|
| | 2013 | 2012 | 2011 |
| Income tax benefit at statutory rate | \$ 49,288 | \$ 26,621 | \$ 16,769 |
| State income tax, net of federal | 6,712 | 680 | 1,212 |
| Other differences | (1,680) | (1,118) | 52 |
| Goodwill | (313) | (181) | 11,919 |
| Change in valuation allowance | (68,594) | (24,844) | (30,971) |
| Beginning deferred tax adjustment | 9,262 | — | — |
| Change in prior year federal tax rate | 4,686 | — | — |
| Total income tax benefit (provision) | <u>\$ (639)</u> | <u>\$ 1,158</u> | <u>\$ (1,019)</u> |

As of December 31, 2013, we had \$124.4 million of federal net operating losses (“NOLs”) available to offset future taxable income, which expire from 2023 through 2031.

We acquired approximately \$130.5 million of federal NOLs from our acquisition of Summerville in September 2007. As of December 31, 2013, certain of these acquired NOLs are subject to an Internal Revenue Code Section 382 annual limitation in any year utilized. As of December 31, 2013, we have NOL carryforwards for state tax purposes of approximately \$74.7 million.

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Deferred income tax assets and liabilities consist of the following (in thousands):

| | December 31, | |
|--|--------------------|--------------------|
| | 2013 | 2012 |
| Gross deferred tax liabilities: | | |
| Intangibles | \$ (45,109) | \$ (46,608) |
| Lease expense | (843,697) | (106,591) |
| Total deferred tax liabilities | <u>(888,806)</u> | <u>(153,199)</u> |
| Gross deferred tax assets: | | |
| Net operating loss carryforwards | 15,314 | 18,516 |
| Fixed assets | 8,728 | 10,012 |
| Deferred gains on sale-leasebacks | 1,083 | 1,419 |
| Unearned rental income and deferred move-in fees | 48,574 | 37,979 |
| Vacation accrual | 6,477 | 4,940 |
| Health insurance accrual | 4,873 | 3,796 |
| Insurance accrual | 30,743 | 22,948 |
| Interest expense | 47 | 114,944 |
| Capital leases | 977,315 | 54,803 |
| Other temporary differences | 27,497 | 43,409 |
| Total deferred tax assets | <u>1,120,651</u> | <u>312,766</u> |
| Less valuation allowance for deferred tax assets | <u>(245,526)</u> | <u>(172,604)</u> |
| Deferred tax assets, net | <u>875,125</u> | <u>140,162</u> |
| Net deferred tax liabilities | <u>\$ (13,681)</u> | <u>\$ (13,037)</u> |

In the fourth quarter of 2013, we made adjustments to certain of our deferred tax assets and liabilities and the valuation allowance. The adjustments were primarily related to capital lease activity, the most significant of which included presentation of deferred balances related to capital leases on a gross, rather than net, basis. The impact of the adjustments was an increase in net deferred tax assets and an increase in deferred tax liabilities of \$22.3 million. Due to the impact of the adjustments on the December 31, 2012 balances, the provision for income taxes includes a beginning deferred tax adjustment of \$9.3 million, which was offset by a change in the valuation allowance by the same amount. Additionally, deferred tax liabilities were increased by \$1.4 million, which enabled us to reduce our valuation allowance, with a corresponding increase in goodwill related to NOC. Because these adjustments were an immaterial correction of an error, we did not revise the December 31, 2012 consolidated balance sheet for comparable presentation. The adjustments had no impact on the 2012 consolidated statement of operations.

For financial reporting purposes, we have established a valuation allowance due to the uncertainty of the realization of the net deferred tax assets. The valuation allowance for deferred tax assets increased by approximately \$72.9 million for the year ended December 31, 2013. Of this increase, \$68.6 million relates to changes in continuing operations, which impact the rate reconciliation, and \$4.3 million relates to changes from discontinued operations. When we determine that it is more likely than not that the deferred tax assets are realizable, we will reduce the valuation allowance accordingly. The \$13.7 million net deferred tax liability arises from indefinite lived intangible assets.

Unrecognized tax benefits, if recognized, would affect our effective tax rate. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

| | |
|--|------------------|
| Balance as of December 31, 2012 | \$ 25,505 |
| Additions based on tax positions taken during a prior period | 1,072 |
| Additions (net) increase in unrecognized tax benefits | 769 |
| Reductions related to a lapse of applicable statute of limitations | (305) |
| Balance as of December 31, 2013 | <u>\$ 27,041</u> |

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Unrecognized tax benefits relate to an uncertain tax position that we took in 2008 in amended tax returns of Summerville, which increased Summerville's NOLs. We offset these NOLs in full by the unrecognized tax benefit. The net increase in unrecognized tax benefits for 2013 was due to a change in rates from 34.0% to 35.0%. Included in other long-term liabilities in the consolidated balance sheet as of December 31, 2013 is a \$104,000 liability for the unrecognized tax benefits related to Summerville.

The tax years that remain open to examination by the taxing authorities are 2009 to 2013. The NOLs from prior years are subject to adjustment under examination unless utilized in a year in which the statute of limitation has expired.

Note 13. Discontinued Operations

Net losses from discontinued operations for the years ended December 31, 2013, 2012 and 2011 represent losses on the sales of communities and related impairment charges and transaction costs (Note 14). During the year ended December 31, 2013, we sold seven communities and terminated the lease on one community, and four communities are classified as held-for-sale as of December 31, 2013. We sold four communities in 2012 and eight communities in 2011.

Revenues and expenses related to any and all of these communities were not material to the consolidated statements of operations and, therefore, have not been reclassified to discontinued operations.

Note 14. Fair Value Disclosures

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012, and indicates the fair value hierarchy of the valuation techniques we have utilized to determine such fair value (in thousands):

| | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Balance as of December 31, 2013</u> |
|---------------------------------|---|--|--|--|
| Assets | | | | |
| Investment securities - trading | \$ 7,394 | \$ — | \$ — | \$ 7,394 |
| Interest rate cap agreements | — | 229 | — | 229 |
| Assets | | | | |
| | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Balance as of December 31, 2012</u> |
| Investment securities - trading | \$ 4,910 | \$ — | \$ — | \$ 4,910 |
| Interest rate cap agreements | — | 164 | — | 164 |

In general, fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and we consider many factors specific to the asset or liability.

We have financial instruments other than investment securities consisting of cash equivalents, other receivables, tax, insurance and maintenance escrows, restricted deposits, workers' compensation collateral accounts, and long-term debt. As of December 31, 2013 and December 31, 2012, the fair values of other receivables, tax, insurance and maintenance escrows,

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restricted deposits and workers' compensation collateral accounts approximate their carrying values based on their short-term nature and/or current market indicators, such as prevailing interest rates (Level 2 inputs). The fair value of our long-term debt is as follows as of the periods indicated (in thousands):

| | December 31, 2013 | | December 31, 2012 | |
|----------------|-------------------|--------------|-------------------|--------------|
| | Carrying | Fair Value | Carrying | Fair Value |
| | Amount | | Amount | |
| Long-term debt | \$ 1,498,231 | \$ 1,533,192 | \$ 1,608,317 | \$ 1,663,687 |

We estimated the fair value of debt obligations using discounted cash flows based on our assumed incremental borrowing rate of 10.0% for unsecured borrowings and 5.3% for secured borrowings (Level 2 inputs).

Impairments of Long-Lived Assets

We designate communities as held for sale when it is probable that the properties will be sold. As a result, we may record impairment losses and carry these assets on our balance sheet at fair value less estimated selling costs. Such losses are included in discontinued operations in the consolidated statements of operations. We determine the fair value of the properties based primarily on purchase and sale agreements from prospective purchasers (Level 2 input). In periods prior to designating the properties as held for sale, when a triggering event occurs, we test these properties for recoverability by applying probability weighting to the estimated undiscounted future cash flows of the communities based on the probability of selling the properties versus continuing to operate them.

In 2013, we recorded impairment charges of \$11.3 million primarily related to seven communities that we disposed of and four that are held for sale as of December 31, 2013, which are included in loss from discontinued operations. We determined the fair value of the assets based on pending purchase offers or executed purchase and sale agreements, less costs to sell (Level 2 input).

Also in 2013, we recorded impairment charges of \$8.2 million related to two communities that we intend to hold and use. In the fourth quarter of 2013, we made the determination that the estimated future undiscounted cash flows of these communities will not be sufficient to cover the carrying values, and therefore we adjusted the carrying values to equal the estimated fair values of the properties. We estimated the fair values using a combination of discounted cash flow models (Level 3 input) and recent offer activity (Level 2 input). These impairment charges are reflected in the consolidated statement of operations as impairments of long-lived assets.

In the third quarter of 2012, we designated one community as held for sale and sold it in September 2012. As a result, we recorded an impairment loss of \$1.9 million. In the second quarter of 2012, we recorded impairment charges of \$4.3 million related to two communities that were classified as held for sale as of June 30, 2012. We determined the fair values based on pending purchase offers, less estimated selling costs (Level 2 input). The impairment charges are included in loss from discontinued operations.

In the first quarter of 2012, we recorded impairment charges of \$2.1 million related to two parcels of undeveloped land. We determined the fair values of the properties based on comparable land sales in the respective local markets (Level 2 input). These impairment charges are reflected in the consolidated statement of operations as impairments of long-lived assets.

In 2011, we recorded impairment charges of \$17.9 million related to five communities that we sold in December 2011. We determined the fair values of the properties based on the sales prices. In periods prior to the designation as held for sale, we tested these properties for recoverability by applying probability weighting to the estimated undiscounted future cash flows of the communities that considered the probability of selling the properties versus continuing to operate them. In the third quarter of 2011, the increased probability that the properties would be sold resulted in the impairment charges (Level 2 input). The impairment charges are included in loss from discontinued operations in the consolidated statement of operations.

Note 15. Segment Information

The Company currently has three operating segments, which are ancillary services, the HCP Leased Communities, and the legacy Emeritus communities. Operating segments are defined as components of an enterprise that engage in business

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activities from which it may earn revenues and incur expenses; for which separate financial information is available; and whose operating results are regularly reviewed by the chief operating decision maker ("CODM") to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.

For financial reporting purposes, the HCP Leased Communities and legacy Emeritus communities meet applicable aggregation criteria and are therefore combined into one reportable segment, which is assisted living and related services ("Senior Living"). The "all other" category includes our ancillary services segment. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1, except as noted below.

The following table sets forth certain segment financial data and does not include reimbursed costs incurred on behalf of managed communities (in thousands). Further, the segment information corresponds to the level of information regularly reviewed by our CODM; unallocated amounts include corporate revenues and expenses, capital lease adjustments, and certain unallocated community revenues and expenses.

| | Year Ended December 31, 2013 | | | |
|--|-------------------------------------|------------------|---------------------|---------------------|
| | Senior Living | All Other | Unallocated | Totals |
| Community and ancillary services revenue (a) | \$ 1,752,799 | \$ 168,762 | \$ 5,510 | \$ 1,927,071 |
| Management fees | — | — | 2,650 | 2,650 |
| Community and ancillary services operations expenses | 1,166,168 | 132,088 | 24,385 | 1,322,641 |
| General and administrative expenses | — | 15,661 | 101,402 | 117,063 |
| EBITDAR (b) | 586,631 | 21,013 | (117,627) | 490,017 |
| Lease expense | 323,492 | 4,972 | (176,248) | 152,216 |
| EBITDA (c) | 263,139 | 16,041 | 58,621 | 337,801 |
| Interest expense | 87,902 | — | 199,487 | 287,389 |
| Depreciation and amortization | 74,622 | — | 106,861 | 181,483 |
| Other (revenue) and expense, net | 2,823 | — | 7,337 | 10,160 |
| Segment profit (loss) | <u>\$ 97,792</u> | <u>\$ 16,041</u> | <u>\$ (255,064)</u> | <u>\$ (141,231)</u> |

| | Year Ended December 31, 2012 | | | |
|--|-------------------------------------|------------------|---------------------|--------------------|
| | Senior Living | All Other | Unallocated | Totals |
| Community and ancillary services revenue (a) | \$ 1,341,284 | \$ 22,111 | \$ 6,624 | \$ 1,370,019 |
| Management fees | — | — | 18,009 | 18,009 |
| Community and ancillary services operations expenses | 891,855 | 16,653 | 11,127 | 919,635 |
| General and administrative expenses | — | 2,173 | 93,452 | 95,625 |
| EBITDAR (b) | 449,429 | 3,285 | (79,946) | 372,768 |
| Lease expense | 200,276 | 637 | (74,152) | 126,761 |
| EBITDA (c) | 249,153 | 2,648 | (5,794) | 246,007 |
| Interest expense | 92,894 | — | 84,051 | 176,945 |
| Depreciation and amortization | 79,387 | — | 61,242 | 140,629 |
| Other (revenue) and expense, net | (1,013) | — | 7,974 | 6,961 |
| Segment profit (loss) | <u>\$ 77,885</u> | <u>\$ 2,648</u> | <u>\$ (159,061)</u> | <u>\$ (78,528)</u> |

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| | Year Ended December 31, 2011 | | | |
|--|------------------------------|---------------|---------------------|--------------------|
| | Senior Living | All Other | Unallocated | Totals |
| Community and ancillary services revenue (a) | \$ 1,231,136 | \$ 580 | \$ 1,949 | \$ 1,233,665 |
| Management fees | — | — | 21,105 | 21,105 |
| Community and ancillary services operations expenses | 824,493 | 292 | 22,382 | 847,167 |
| General and administrative expenses | — | 147 | 88,620 | 88,767 |
| EBITDAR (b) | 406,643 | 141 | (87,948) | 318,836 |
| Lease expense | 170,213 | 21 | (45,283) | 124,951 |
| EBITDA (c) | 236,430 | 120 | (42,665) | 193,885 |
| Interest expense | 97,007 | — | 60,255 | 157,262 |
| Depreciation and amortization | 73,023 | — | 49,349 | 122,372 |
| Other (revenue) and expense, net | 929 | — | (37,004) | (36,075) |
| Segment profit (loss) | <u>\$ 65,471</u> | <u>\$ 120</u> | <u>\$ (115,265)</u> | <u>\$ (49,674)</u> |

(a) All revenue is earned from external third parties in the United States.

(b) EBITDAR is defined as earnings before interest, taxes, depreciation, amortization and rent (lease) expense and represents the measure of profitability used by our CODM to evaluate the Senior Living segment. The Senior Living data set forth above do not include adjustments related to capital leases and certain unallocated revenues and expenses.

(c) EBITDA is defined as EBITDAR less lease expense and represents the measure of profitability used by our CODM to evaluate our ancillary services segment, the primary component of the All Other category. Lease expense for Senior Living represents cash rent payments on operating and capital leases.

| | As of December 31, 2013 | | |
|----------------------|-------------------------|------------|--------------|
| | Senior Living | All Other | Totals |
| Total assets | \$ 4,448,769 | \$ 145,879 | \$ 4,594,648 |
| Goodwill | 134,938 | 54,688 | 189,626 |
| Capital expenditures | 67,444 | 998 | 68,442 |

| | As of December 31, 2012 | | |
|----------------------|-------------------------|------------|--------------|
| | Senior Living | All Other | Totals |
| Total assets | \$ 4,525,409 | \$ 135,341 | \$ 4,660,750 |
| Goodwill | 135,039 | 51,717 | 186,756 |
| Capital expenditures | 36,676 | 536 | 37,212 |

Note 16. Liquidity

As of December 31, 2013, we had a working capital deficit of \$137.6 million compared to a working capital deficit of \$55.5 million at December 31, 2012. We are able to operate in the position of a working capital deficit because we often convert our revenues to cash more quickly than we are required to pay the corresponding obligations incurred to generate those revenues, and we have historically refinanced or extended maturities of debt obligations as they become current liabilities. Our operations result in a low level of current assets to the extent we have used cash for business development expenses or to pay down long-term liabilities. Additionally, the working capital deficit as of December 31, 2013 included the following non-cash

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items: a \$49.2 million deferred tax asset and, as part of current liabilities, \$56.6 million of deferred revenue and unearned rental income. We do not expect the level of current liabilities to change from period to period in such a way as to require the use of significant cash in excess of normal requirements, except for \$106.7 million in final (“balloon”) payments of principal on long-term debt maturing in the next 12 months, which is included in current portion of long-term debt as of December 31, 2013. Also included in the current portion of long-term debt is \$14.2 million related to communities held for sale as of December 31, 2013 (Note 13), which will be repaid with the proceeds from the sales when completed.

Since 2008, we have refinanced and extended the terms of a substantial amount of our existing debt obligations. Balloon payments of principal on long-term debt maturing in the next 12 months are expected to be repaid, refinanced, or extended. Many of our debt instruments and leases contain “cross-default” provisions pursuant to which a default under one obligation can cause a default under one or more other obligations to the same lender or lessor. Such cross-default provisions affect the majority of our properties. Accordingly, any event of default could cause a material adverse effect on our financial condition if such debt or leases are cross-defaulted. From time to time, we have failed to comply with certain covenants in our financing and lease agreements relating generally to matters such as cash flow, debt, and lease coverage ratios, and certain other performance standards. In the future, we may be unable to comply with these or other covenants. If we fail to comply with any of these requirements and are not able to obtain waivers, our lenders could accelerate the repayment of the related indebtedness so that it becomes due and payable prior to its stated due date, and/or the lessors could terminate lease agreements.

In the three years ended December 31, 2013 and 2012 and 2011, we reported net cash provided by operating activities of \$98.2 million, \$116.6 million and \$74.1 million, respectively, in our consolidated statements of cash flows. In July 2013, we posted a bond in connection with our appeal of a jury verdict against the Company in a professional liability case (Note 11). As a result, we made a cash deposit in the amount of \$20.9 million to collateralize the bond, which is included in net cash flows from operating activities.

Net cash provided by operating activities has not always been sufficient to pay all of our long-term obligations and we have been dependent upon third-party financing or disposition of assets to fund operations. We cannot guarantee that, if necessary in the future, such transactions will be available on a timely basis or at all, or on terms attractive to us.

As discussed above, we expect to repay, refinance or extend our balloon payments due in the next 12 months. If we are unable to do so, or if additional principal payments are required as a result of covenant violations, we believe the Company would be able to generate sufficient cash flows to support its operating, investing and financing activities for at least the next 12 months by extending payment terms to suppliers, reducing or delaying its capital expenditures and operating expenses, selling communities or a combination thereof.

In connection with Emeritus’ guarantees of certain debt and lease agreements, we are required at all times to maintain a minimum \$20.0 million balance of unencumbered liquid assets, defined as cash, cash equivalents and/or publicly traded/quoted marketable securities. As a result, \$20.0 million of our cash on hand is not available to fund operations and we take this into account in our cash management activities.

Note 17. Quarterly Results

EMERITUS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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| 2013 | (unaudited) | | | |
|---|---------------------------------------|-------------|-------------|-------------|
| | (In thousands, except per share data) | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Total operating revenue (a) | \$ 472,368 | \$ 475,926 | \$ 491,733 | \$ 520,591 |
| Income from operations (b) | 32,494 | 41,338 | 43,031 | 25,491 |
| Other expense | (71,053) | (71,113) | (71,267) | (70,152) |
| Loss from continuing operations before income taxes | (38,559) | (29,775) | (28,236) | (44,661) |
| Benefit of (provision for) income taxes | (1,106) | (1,190) | 177 | 1,480 |
| Income (loss) from discontinued operations (c) | — | (5,368) | 146 | (5,878) |
| Net loss | (39,665) | (36,333) | (27,913) | (49,059) |
| Net loss (income) attributable to the noncontrolling interest | (91) | 376 | 90 | 34 |
| Net loss attributable to Emeritus Corporation common shareholders | \$ (39,756) | \$ (35,957) | \$ (27,823) | \$ (49,025) |
| Basic and diluted loss per common share attributable to Emeritus Corporation common shareholders: | | | | |
| Continuing operations | \$ (0.88) | \$ (0.66) | \$ (0.59) | \$ (0.91) |
| Discontinued operations | — | (0.11) | — | (0.13) |
| | \$ (0.88) | \$ (0.77) | \$ (0.59) | \$ (1.04) |

| 2012 | (unaudited) | | | |
|---|---------------------------------------|-------------|-------------|-------------|
| | (In thousands, except per share data) | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Total operating revenue (d) | \$ 374,591 | \$ 374,802 | \$ 381,120 | \$ 437,563 |
| Income from operations | 19,901 | 22,320 | 24,429 | 31,083 |
| Other expense | (39,024) | (38,742) | (37,809) | (60,686) |
| Loss from continuing operations before income taxes | (19,123) | (16,422) | (13,380) | (29,603) |
| Benefit of (provision for) income taxes (e) | (272) | (324) | (324) | 2,078 |
| Loss from discontinued operations (c) | — | (5,007) | (2,698) | — |
| Net loss | (19,395) | (21,753) | (16,402) | (27,525) |
| Net loss attributable to the noncontrolling interest | 14 | 34 | 150 | 33 |
| Net loss attributable to Emeritus Corporation common shareholders | \$ (19,381) | \$ (21,719) | \$ (16,252) | \$ (27,492) |
| Basic and diluted loss per common share attributable to Emeritus Corporation common shareholders: | | | | |
| Continuing operations | \$ (0.43) | \$ (0.38) | \$ (0.30) | \$ (0.61) |
| Discontinued operations | — | (0.11) | (0.06) | — |
| | \$ (0.43) | \$ (0.49) | \$ (0.36) | \$ (0.61) |

Note: The sum of quarterly per share data in any given year may not equal the reported annual per share total.

- (a) Includes the acquisition of the Merrill Gardens Communities in the third quarter of 2013 (Note 4).
- (b) The 2013 fourth quarter includes: (i) self-insurance reserve adjustments related to prior years of \$6.0 million; (ii) impairment charges of \$8.2 million; and (iii) transaction costs of \$3.9 million.
- (c) Includes impairment losses and losses on the sale of communities.
- (d) Includes the acquisition of NOC and assets acquired from the Sunwest JV in the fourth quarter of 2012 (Note 4).
- (e) Income tax expense in the fourth quarter of 2012 is the result of the taxable gain on the sale of our equity interest in the Sunwest JV.

Note 18. Subsequent Events

EMERITUS CORPORATION
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Merger Agreement with Brookdale

On February 20, 2014,, Emeritus and Brookdale announced that the companies have entered into a Merger Agreement, pursuant to which Brookdale Merger Sub Corporation, a wholly owned subsidiary of Brookdale (“Merger Sub”) will merge with and into Emeritus, with Emeritus continuing as the surviving corporation and becoming a wholly owned subsidiary of Brookdale (the “Merger”). Pursuant to the terms of the Merger, at the effective time of the Merger, each issued and outstanding share of Emeritus common stock will be canceled and converted into the right to receive consideration equal to 0.95 of one share of Brookdale common stock.

We expect that the Merger will close in the third quarter of 2014, subject to the satisfaction of closing conditions, including, among other things, (i) shareholder approval from the Emeritus shareholders and Brookdale shareholders, (ii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), (iii) absence of legal impediments preventing consummation of the Merger, (iv) the effectiveness of the registration statement on Form S-4 to be filed by Brookdale relating to the shares of Brookdale common stock to be issued in the Merger, (v) approval by the New York Stock Exchange of the listing of shares of Brookdale common stock to be issued to Emeritus shareholders under the Merger Agreement, (vi) the receipt of required regulatory approvals and lender consents, (vii) the delivery of opinions from counsel to each of Emeritus and Brookdale to the effect that the Merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and (viii) the absence of a material adverse effect with respect to the Company.

Additionally, Emeritus has agreed to suspend the commencement of any offering periods under the 2009 ESPP (Note 9) after March 31, 2014. Emeritus could resume offering periods under the 2009 ESPP if the Merger were not to occur.

INDEX TO EXHIBITS

| Exhibit Number | Description | Footnote |
|-------------------|--|----------|
| 3.1 | Restated Articles of Incorporation of registrant as of September 14, 2009. | (37) |
| 3.2 | Restated Bylaws of registrant. | (37) |
| 3.3 | Amendment to Restated Bylaws of registrant | (65) |
| 10.1* | Amended and Restated 1995 Stock Incentive Plan (as amended through August 24, 2000). | (7) |
| 10.2* | Amended and Restated Stock Option Plan for Nonemployee Directors (as amended through April 2, 2010) (Appendix B). | (41) |
| 10.3* | 2009 Employee Stock Purchase Plan (Appendix A). | (55) |
| 10.4* | 2006 Amended and Restated Equity Incentive Plan. (Exhibit to Definitive Proxy Statement Appendix A) | (41) |
| 10.4.1 | Form of Option Agreement for grants made pursuant to the 2006 Equity Incentive Plan. | (34) |
| 10.4.2 | Form of 2011 Restricted Stock Award Agreement for grants made pursuant to the 2006 Amended and Restated Equity Incentive Plan. | (56) |
| 10.4.3 | Form of 2012 Restricted Stock Award Agreement for grants made pursuant to the 2006 Amended and Restated Equity Incentive Plan. | (60) |
| 10.4.4 | Form of Restricted Stock Award Agreement for Non-Employee Director awards made pursuant to the 2006 Amended and Restated Equity Incentive Plan. | (63) |
| 10.4.5 | Restricted Stock Award Agreement for non-employee directors. | (63) |
| 10.4.6 | Form of 2013 Restricted Stock Award Agreement for grants made pursuant to the 2006 Amended and Restated Equity Incentive Plan. | (65) |
| 10.5* | Nonqualified Deferred Compensation Plan. | (39) |
| 10.6* | Noncompetition Agreements between Registrant and Executive Officers. | |
| 10.6.3 | Noncompetition Agreement dated September 29, 1995 between registrant and Raymond R. Brandstrom (Exhibit 10.4.2). | (1) |
| 10.6.4 | First Amendment to Noncompetition Agreement dated October 28, 1997 between registrant and Raymond R. Brandstrom (Exhibit 10.1.2). | (5) |
| 10.6.5 | Noncompetition Agreement dated April 10, 2009 between registrant and Granger Cobb. | (36) |
| 10.6.6 | Noncompetition Agreement dated May 21, 2009 between registrant and Budgie Amparo. | (36) |
| 10.6.7 | Noncompetition Agreement dated November 20, 2009 between registrant and Rob Bateman. | (39) |
| 10.7* | Executive Separations Agreements. | |
| 10.7.1 | Agreement and General Release between registrant and Frank Ruffo, Jr. (Exhibit 10.15.1). | (21) |
| 10.8 | Office Lease dated April 29, 1996 between Martin Selig, as lessor, and registrant, as lessee. | (2) |
| 10.8.1 | Office Lease dated June 29, 2010 between Selig Holdings Company as lessor, and registrant, as lessee. | (46) |
| 10.9* | Executive Employment Agreements. | |
| 10.9.2 | Employment Agreement between Emeritus Corporation and Raymond R. Brandstrom Jr., effective January 1, 2010. | (38) |
| 10.9.3 | First Amendment to Employment Agreement between Emeritus Corporation and Raymond R. Brandstrom Jr., effective June 23, 2010. | (46) |
| 10.9.4 | Employment Agreement between Emeritus Corporation and Daniel R. Baty dated January 19, 2011. | (49) |
| 10.9.5 | Amended and Restated Employment Agreement, effective as of January 1, 2012, between Emeritus Corporation and its subsidiaries and Granger Cobb. | (26) |
| 10.22 | Documents Relating to Merger with Summerville Senior Living, Inc. | |
| 10.22.1 | Agreement and Plan of Merger dated March 29, 2007 among registrant, and certain of its shareholders, and Summerville Senior Living, Inc., and certain of its shareholders (Exhibit 2.1). | (22) |

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| 10.22.2 | Amended and Restated Shareholders Agreement dated March 29, 2007 among registrant, certain of its shareholders and certain shareholders of Summerville Senior Living, Inc. (Exhibit 10.1). | (22) |
| 10.22.3 | Registration Rights Agreement dated March 29, 2007 among registrant, certain of its shareholders and certain shareholders of Summerville Senior Living, Inc. (Exhibit 10.2). | (22) |
| 10.22.4 | Amendment to Registration Rights Agreement dated March 31, 2010 among registrant, certain of its shareholders and certain shareholders of Summerville Senior Living, Inc. (Exhibit 10.1). | (40) |
| 10.22.5 | First Amendment to Amended and Restated Shareholders Agreement effective April 30, 2010 among registrant, certain of its shareholders and certain shareholders of Summerville Senior Living, Inc. | (46) |
| 10.24 | Documents Relating to Leases with Health Care Property Investors, Inc. & Summerville Senior Living, Inc. for 23 communities. | |
| 10.24.1 | Amended and Restated Master Lease Agreement dated 4-20-05 between Health Care Property Investors, Inc and Westminster HCP, LLC and certain subsidiaries of Summerville Senior Living for 10 properties. | (27) |
| 10.24.2 | First Amendment HCPI Master Lease dated 9-1-05 to add 9 Group 4 acquisition facilities. | (27) |
| 10.24.3 | Second Amendment HCPI Master Lease dated 12-20-05 to add 2 Group 5 facilities. | (27) |
| 10.24.4 | Third Amendment HCPI Master Lease dated 1-31-06 to add Chestnut Hill facilities. | (27) |
| 10.24.5 | Fourth Amendment HCPI Master Lease dated 5-24-06 to add Becket Lake Lodge facility and capital additions. | (27) |
| 10.24.6 | Fifth Amendment HCPI Master Lease dated 6-1-06 to add Carrollwood and Gainsville facilities. | (27) |
| 10.24.7 | Sixth Amendment HCPI Master Lease dated 8-1-06 to add Fox Run facility. | (27) |
| 10.24.8 | Seventh Amendment HCPI Master Lease dated 10-1-06 to add 5 Group 10 facilities. | (27) |
| 10.24.9 | Eighth Amendment HCPI Master Lease dated 8-8-07. | (27) |
| 10.24.10 | Ninth Amendment HCPI Master Lease dated 8-15-07 to remove eight purchased communities from lease. | (27) |
| 10.24.11 | Sixteenth Amendment to Amended and Restated Master Lease dated as of June 28, 2013 by and among affiliates of HCP, Inc. and Emeritus Corporation (addition of Springtree Facility). | (64) |
| 10.26 | Documents related to Leases with Nationwide Health Properties, Inc. and Summerville Senior Living for six communities. | |
| 10.26.1 | Master Lease Agreement between Nationwide Health Properties, Inc. and certain subsidiaries of Summerville Senior Living for 3 properties dated 10-2-06. | (27) |
| 10.26.2 | First Amendment to NHP Master Lease dated 12-1-06 to add Ridgewood Gardens. | (27) |
| 10.26.3 | Second Amendment to NHP Master Lease dated 1-2-07 to add North Hills and Medina facilities. | (27) |
| 10.26.4 | Third Amendment to NHP Master Lease dated 10-22-08 by and between Emeritus Corporation and Nationwide Health Properties, Inc. | (29) |
| 10.26.5 | Fourth Amendment to NHP Master Lease dated 11-01-10 by and among Nationwide Health Properties, Inc., NHP McClain LLC, as Landlord and certain subsidiaries of Summerville Senior Living, as Tenant, and Emeritus Corporation as Guarantor. | (29) |
| 10.27 | Documents related to Leases with Brentwood/Garantoni and Summerville Senior Living for four Indiana communities. | |
| 10.27.1 | Master Lease Agreement for 4 Indiana communities between Brentwood/Garantoni and Summerville Senior Living dated 10-01-04. | (28) |
| 10.27.2 | Brentwood-Elkart Lease Agreement 10-29-04. | (28) |
| 10.27.3 | Brentwood-Hobart Lease Agreement 10-29-04. | (28) |
| 10.27.4 | First Amendment to Brentwood-Hobart Lease Agreement 8-15-06. | (28) |
| 10.27.5 | Second Amendment to Brentwood-Hobart Lease Agreement 2-12-07. | (28) |
| 10.27.6 | Brentwood-LaPorte Lease Agreement 11-15-04. | (28) |
| 10.27.7 | First Amendment to Brentwood-LaPorte Lease Agreement 8-15-06. | (28) |
| 10.27.8 | Second Amendment to Brentwood-LaPorte Lease Agreement 2-12-07. | (28) |

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| | 10.27.9 | Third Amendment to Brentwood-LaPorte Lease Agreement 5-14-07. | (28) |
| | 10.27.10 | Brentwood-Niles Lease Agreement 11-15-04. | (28) |
| 10.28 | Documents related to Leases with Warren L. Breslow Trust as Lessor and Summerville Senior Living for four communities. | | |
| | 10.28.1 | Amended and Restated Lease Agreement dated 11-1-94 between Alhambra Royale and Jerry Agam and Pacifica Manor, Inc. | (28) |
| | 10.28.2 | Amendment to Lease and Consent Agreement dated 8-28-98 by and among Alhambra Royale, Jerry Agam, Pacifica Manor, Inc and COBBCO Inc. | (28) |
| | 10.28.3 | Amended and Restated Lease Agreement dated 11-1-94 between Chatsworth and Jerry Agam and Pacifica Manor, Inc. | (28) |
| | 10.28.4 | Amendment to Lease and Consent Agreement dated 8-28-98 between Chatsworth Jerry Agam, Pacifica Manor, Inc and COBBCO Inc. | (28) |
| | 10.28.5 | Amended and Restated Lease Agreement dated 11-1-94 between Clairemont and Jerry Agam and Pacifica Manor, Inc. | (28) |
| | 10.28.6 | Amendment to Lease and Consent Agreement dated 8-28-98 between Clairemont, Jerry Agam, Pacifica Manor, Inc and COBBCO Inc. | (28) |
| | 10.28.7 | Lease Agreement dated 3-1-05 between Brookhurst Royale, LLC and Summerville 13, LLC. | (28) |
| | 10.28.8 | Amended and Restated Lease Agreement dated October 15, 2010 by and between Alhambra Royale, and Summerville at COBBCO Inc. | (48) |
| | 10.28.9 | Amended and Restated Lease Agreement dated October 15, 2010 by and between Chatsworth Royale and Summerville at COBBCO Inc. | (48) |
| | 10.28.10 | Amended to Lease and Consent Agreement dated October 15, 2010 by and between Clairemont Royale LP and Summerville at COBBCO Inc. | (48) |
| 10.29 | Documents related to Leases with General Residential Corp and Summerville Senior Living for two communities. | | |
| | 10.29.1 | Lease Agreement dated 2-24-05 between General Residential Corporation and Summerville at COBBCO for Orange. | (28) |
| | 10.29.2 | Lease Agreement dated 9-28-05 between General Residential Corporation and Summerville at COBBCO for Casa Whittier. | (28) |
| 10.31 | Documents related to Leases between P G Fry Properties, Inc and Summerville 8 LLC for two communities. | | |
| | 10.31.1 | Lease Agreement between P G Fry Properties, Inc and Summerville 8 LLC dated 4-14-05 for Villa Colima in California. | (27) |
| | 10.31.2 | Lease Agreement between P G Fry Properties, Inc and Summerville 8 LLC dated 6-30-05 for Regency Residence in Florida. | (27) |
| 10.32 | Documents related to Lease between Casa Glendale Partners and Summerville at COBBCO, Inc. | | |
| | 10.32.1 | Single Tenant Lease between Berg Family Revocable Trust and Berg Senior Services Corporation dated 4-1-91 for Casa Glendale community. | (27) |
| | 10.32.2 | Amendment, Assignment, and Confirmation of Lease between Casa Glendale Partners, successor interest to Berg Family Revocable Trust, Berg Senior Services Corp, Berg Senior Services Management Corp and Summerville at COBBCO, Inc. dated 6-1-99. | (27) |
| 10.33 | Documents related to Leases between Sokol Enterprises and Grand Cypress Residential Care Corporation for two communities. | | |
| | 10.33.1 | Lease Agreement between Sokol Trust and Grand Cypress Residential Care Corporation dated 7-1-96 for Tarzana Place. | (27) |
| | 10.33.2 | Lease Agreement between Valley View Retirement home (David Sokol) and Grand Cypress Residential Care Corporation dated 8-2-96. | (27) |
| 10.34 | Documents related to Lease between Vintage Investors and Summerville (COBBCO). | | |
| | 10.34.1 | Lease Agreement between Vintage Investors and Summerville (COBBCO) dated 6-17-97 for Villa del Rey Community. | (27) |
| | 10.34.2 | First Amendment to Lease dated 4-27-07 to extend lease term. | (27) |
| 10.35 | Documents related to Lease between Mission/Felson Partners, LP and Summerville (COBBCO). | | |
| | 10.35.1 | Assisted Living Facility Lease between Mission/Felson Partners, LP and Summerville (COBBCO) dated 7-3-97 for Landmark Villa. | (27) |
| | 10.35.2 | Extension Notice for Landmark Villa Lease dated 4-30-04. | (27) |
| 10.36 | Documents related to Lease between Dale E. Patterson and Summerville (COBBCO). | | |

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| 10.36.1 | Assisted Living Facility Lease between Dale E. Patterson and Summerville (COBBCO) dated 10-1-97 for Garden Manor. | (27) |
| 10.36.2 | Extension Letter for Garden Manor Lease dated 2-15-07. | (27) |
| 10.36.3 | First Amendment to Assisted Living Facility Lease (Garden Manor) dated October 1, 2011 by and between Dale E. Patterson and Cobbco, Inc. | (56) |
| 10.36.4 | Purchase Option Agreement dated October 1, 2011 by and between Emeritus Corporation and Dale E. Patterson. | (56) |
| 10.37 | Documents related to Lease between Cox, West, and Fischer and Summerville (COBBCO). | |
| 10.37.1 | Assisted Living Facility Lease between Cox, West, and Fischer and Summerville (COBBCO) dated 10-1-97 for Villa de Anza. | (27) |
| 10.38 | Documents related to Lease between Carriage Hill Cabin John, Inc. and Summerville at Potomac, Inc. | |
| 10.38.1 | Lease Agreement between Carriage Hill Cabin John, Inc. and Summerville at Potomac, Inc. dated 4-21-98 for Potomac Community. | (27) |
| 10.38.2 | Lease Amendment dated June 1, 2013 by and between Carriage Hill Cabin John, Inc., as agent for the owner, Cabin John Properties, LLC, and Summerville at Potomac, Inc. | (64) |
| 10.39 | Documents related to Leases between Salinas Valley Memorial Assisted Living LLC and Summerville at Harden Ranch. | |
| 10.39.1 | Assisted Living Facility Lease between Salinas Valley Memorial Assisted Living LLC and Summerville at Harden Ranch dated 3-31-04 for Harden Ranch. | (27) |
| 10.40 | Documents related to lease agreement between Woodward Arnold LLC, Woodward Pomerantz LLC, Woodward Felson LLC, Woodward Gordon-Burge LLC, Woodward Burge LLC and Summerville 1 LLC for 1 community. | |
| 10.40.1 | Assisted Living Facility Lease between Woodward Arnold LLC, Woodward Pomerantz LLC, Woodward Felson LLC, Woodward Gordon-Burge LLC, Woodward Burge LLC and Summerville 1 LLC dated 9-1-04 for Woodward Community. | (27) |
| 10.41 | Documents related to Lease between Richard and Lois Arnold, Murray & Janet Gordon and COBBCO. | |
| 10.41.1 | Lease Agreement dated 11-9-89 between Richard and Lois Arnold, Murray & Janet Gordon and COBBCO for Creekside Lodge. | (27) |
| 10.42 | Documents related to Lease between Ventas Realty and Summerville for 7 communities. | |
| 10.42.1 | Amended and Restated Master Lease Agreement by Ventas Realty, LP and SW Assisted Living, LLC, Summerville at Mentor, LLC, Summerville at Heritage Place, LLC, Summerville at Atherton Court LLC, Summerville at Barrington Court LLC and Summerville at Roseville Gardens LLC dated 3-31-06. | (27) |
| 10.42.2 | Second Amended and Restated Master Lease Agreement dated 4-20-06 to add Summerville at Golden Pond. | (27) |
| 10.42.3 | Third Amended and Restated Master Lease Agreement dated July 25, 2008 by Ventas Realty, LP and Ventas Framingham, LLC as landlord and Summerville 3,5,14,15,16,17,SW Assisted Living, Summerville at Mentor, Heritage Place, Atherton Court, Barrington Court, Roseville Gardens and Golden Pond LLC. | (34) |
| 10.42.4 | Lease Combination Agreement and Amendment of Lease dated as of June 29, 2011 by and among Ventas Realty, Limited Partnership and Ventas Fairwood, LLC, as Landlord, and SW Assisted Living, LLC, Summerville at Heritage Place, LLC, Summerville at Barrington Court LLC, Summerville at Roseville Gardens LLC, Summerville 17 LLC, and Summerville at Fairwood Manor, LLC as Tenant. | (57) |
| 10.42.5 | Second Amendment to Master Lease dated as of February 24, 2012 by and among Ventas Realty, Limited Partnership and SW Assisted Living, LLC, Summerville at Heritage Place, LLC, Summerville at Barrington Court LLC, Summerville at Roseville Gardens LLC, Summerville 17 LLC, and Summerville at Fairwood Manor, LLC. | (57) |
| 10.45 | Documents related to Lease between Ventas Whitehall Estates, LLC and Summerville for 1 community. | |
| 10.45.1 | Master Lease Agreement by Ventas Whitehall Estates, LLC and Summerville 4, LLC dated 4-14-05 for Whitehall Estates. | (27) |
| 10.52 | Documents Relating to Leases with Philip Wegman (9 Communities). | |
| 10.52.01 | Indemnity Agreement dated November 3, 1996 between registrant and Painted Post Partnership (Exhibit 10.3). | (4) |

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| 10.52.02 | First Amendment to Indemnity Agreement dated January 1, 1997 between registrant and Painted Post Partnership (Exhibit 10.4). | (4) |
| 10.52.03 | Management Services Agreement dated September 2, 1996 between registrant and Painted Post Partners, as operator (Exhibit 10.4.2). | (3) |
| 10.52.04 | First Amendment to Provide Administrative Services dated January 1, 1997 between registrant and Painted Post Partners (Exhibit 10.1). | (4) |
| 10.55 | Documents Relating to Leases with Health Care REIT, Inc. and Loan from Healthcare Realty Trust Incorporated (23 Communities). | |
| 10.55.01 | Amended and Restated Master Lease Agreement dated September 30, 2003 between Health Care REIT, Inc. and related entities, collectively as landlord, and the registrant, as tenant (Exhibit 10.53.13). | (8) |
| 10.55.02 | First Amendment to Amended and Restated Master Lease Agreement dated June 22, 2005 between Health Care REIT, Inc., and related entities, collectively as landlord, and the registrant, as tenant (Exhibit 10.53.23). | (15) |
| 10.55.03 | Second Amended and Restated Loan Agreement dated March 3, 2005 between Healthcare Realty Trust Incorporated and registrant (Exhibit 10.1). | (13) |
| 10.55.04 | Second Amended and Restated Note of registrant dated March 3, 2005 in the principal amount of \$21,426,000 payable to Healthcare Realty Trust Incorporated (Exhibit 10.2). | (13) |
| 10.55.05 | Intercreditor Agreement dated March 3, 2005 between Health Care REIT, Inc. and Healthcare Realty Trust Incorporated (Exhibit 10.4). | (13) |
| 10.55.06 | Loan Purchase Agreement dated May 3, 2005 among Healthcare Realty Trust Incorporated, Health Care REIT, Inc. and registrant (Exhibit 10.3). | (13) |
| 10.55.07 | Amended and Restated Leasehold Mortgage/Deed of Trust, Assignment of Leases and Rents, Financing Statement and Fixture Filing dated September 30, 2003 among registrant, as trustor, various title insurance companies, as trustee, and Health Care REIT, Inc., as beneficiary (Exhibit 10.53.16). | (9) |
| 10.55.08 | Early Option Letter between Health Care REIT, Inc. and certain Affiliates and Emeritus Corporation, Purchase of Park Club of Fort Meyers. | (25) |
| 10.55.09 | Second Amendment to Amended and Restated Master Lease Agreement dated June 30, 2008 between Health Care REIT, Inc and related entities, collectively as landlord and Emeritus Corporation, as Tenant. | (32) |
| 10.56 | Documents Relating to 2003 Leases by Health Care Realty, Inc. (4 Communities). | |
| 10.56.01 | Four Lease Agreements dated September 29, 2003 between Health Care Realty, Inc. subsidiaries, collectively as lessor, and subsidiaries of the registrant, collectively as lessee (Exhibits 10.34.7, 10.55.4, 10.55.5 and 10.55.6). | (9) |
| 10.56.10 | Master Lease Agreement (Master Lease #3) dated June 10, 2009 by and among Health Care Realty, Inc., and certain of its subsidiaries, and Emeritus Corporation. | (39) |
| 10.57 | Documents Relating to Purchase and Financing of Communities from Fretus Investors (24 Communities) Dated 2007. | |
| 10.57.01 | Purchase and Sale Agreement (Membership Interests) dated February 22, 2007 among registrant, as buyer, CP '02 Pool, LLC, FSPP Fretus I, LLC and FSPP Fretus II, LLC, as seller, and Fretus Investors LLC, as company (Exhibit 10.72.2). | (20) |
| 10.57.02 | Loan Agreement (Amended and Restated) dated February 28, 2007 among 24 limited liability companies and limited partnerships, collectively as borrower, and Capmark Bank, as lender (Exhibit 10.72.3). | (20) |
| 10.57.03 | Promissory Note (Fixed Rate) of borrower dated February 28, 2007 in the principal amount of \$132 million payable to Capmark Bank (Exhibit 10.72.5). | (20) |
| 10.57.07 | First Amendment to Loan Agreement (Amended and Restated) dated April 25, 2008 among 23 limited liability companies and limited partnerships, collectively as borrower, and Capmark Bank, as lender. | (32) |
| 10.57.08 | Amended and Restated Promissory Note of borrower dated May 1, 2008 in the principal amount of \$16.8 million payable to Capmark Bank. | (32) |
| 10.57.09 | Freddie Mac Security, Assignment and Subordination Agreement For Operating Lease dated April 25, 2008 among Emeritus Properties-NGH, LLC, Capmark Bank, and Fretus Investors Chandler LLC. Representative example of 18 communities which in total equal \$129 million. | (32) |
| 10.57.10 | Multifamily Note dated April 25, 2008 between Fretus Investors Chandler LLC and Capmark Bank. Representative example of 18 communities which in total equal \$129 million. | (32) |
| 10.57.11 | Second Amendment to Loan Agreement (Amended and Restated) dated December 31, 2008 by and among Fretus Investors El Paso LP, as borrower, and Capmark Bank, as lender. | (35) |

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| 10.57.12 | The First Amendment to Promissory Note (Amended and Restated) of borrower dated December 31, 2008 in the principal amount of \$16.8 million payable to Capmark Bank. | (35) |
| 10.57.13 | Third Amendment to Loan Agreement effective July 1, 2011 by and between Fretus Investors El Paso LP and Capmark Bank. | (54) |
| 10.57.14 | Second Amendment to Promissory Note dated July 1, 2011 in the amount of \$4.35 million by and between Fretus Investors El Paso LP and Capmark Bank. | (54) |
| 10.58 | Lease Agreement dated August 15, 2003 between Washington Lessor-Silverdale, Inc., as lessor, and ESC –Silverdale, LLC, as lessee (1 Community) (Exhibit 10.76.1). | (11) |
| 10.59 | Documents Relating to Purchase Communities from Alterra Healthcare Corporation (5 Communities). | |
| 10.59.01 | Conveyance and Operations Transfer Agreement dated December 31, 2003 among ALS Financing, Inc., as seller, Alterra Healthcare Corporation, and Emeritus Properties XVI, Inc., as purchaser, relating to the purchase of three assisted living communities (Exhibit 10.77.4). | (10) |
| 10.59.05 | Fannie Mae Multifamily Mortgage, Assignment of Rents and Security Agreement dated April 30, 2008 between Emerikeyt Liberal Springs, LLC and Keycorp Real Estate Capital Markets, Inc in the principal amount of \$5.31 million. | (32) |
| 10.59.06 | Fannie Mae Subordination, Assignment and Security Agreement dated April 30, 2008 between Emerikeyt Palms at Loma Linda Inc and Keycorp Real Estate Capital Markets, Inc in the principal amount of \$14.475 million. | (32) |
| 10.59.07 | Fannie Mae Subordination, Assignment and Security Agreement dated April 30, 2008 between Emerikeyt Springs at Oceanside Inc and Keycorp Real Estate Capital Markets, Inc in the principal amount of \$14.475 million. | (32) |
| 10.59.08 | Fannie Mae Multifamily Note dated April 30, 2008 in the principal amount of \$5.31 million between Emerikeyt Liberal Springs, LLC and Keycorp Real Estate Capital Markets, Inc. | (32) |
| 10.59.09 | Fannie Mae Multifamily Note dated April 30, 2008 in the principal amount of \$14.475 million between Emerikeyt Palms at Loma Linda Inc and Keycorp Real Estate Capital Markets, Inc. | (32) |
| 10.59.10 | Fannie Mae Multifamily Note dated April 30, 2008 in the principal amount of \$5.586 million between Emerikeyt Springs at Oceanside Inc and Keycorp Real Estate Capital Markets, Inc. | (32) |
| 10.61 | Documents Relating to 2004 Leases with Health Care REIT, Inc. (20 communities). | |
| 10.61.01 | Master Lease Agreement dated September 30, 2004 between Health Care REIT, Inc. and related entities, collectively as lessor, and registrant, as lessee, relating to 18 assisted living communities (Exhibit 10.83.1). | (12) |
| 10.61.02 | Unconditional and Continuing Lease Guaranty dated September 30, 2004 by Daniel R. Baty in favor of Health Care REIT, Inc. and related entities (Exhibit 10.83.2). | (12) |
| 10.61.03 | Agreement dated September 30, 2004 between registrant and Daniel R. Baty relating to cash flow sharing agreement (Exhibit 10.83.3). | (12) |
| 10.61.04 | Lease Agreement dated March 31, 2005 between HRCI Wilburn Gardens Properties, LLC, as lessor, and registrant, as lessee, relating to one assisted living community (Exhibit 10.83.6). | (14) |
| 10.61.05 | Lease Agreement dated September 1, 2005 between HRCI Hunters Glen Properties, LLC, as lessor, and registrant, as lessee, relating to one assisted living community (Exhibit 10.83.7). | (16) |
| 10.61.08 | Agreement dated February 11, 2011 between Emeritus Corporation, Summerville Senior Living, Inc., Batus, LLC, and Daniel R. Baty relating to a cash flow sharing agreement (Buy Out Option). | (50) |
| 10.61.09 | Agreement dated November 1, 2011 by and among Emeritus Corporation, Summerville Senior Living, Inc., Batus, LLC and Daniel R. Baty relating to a cash flow sharing agreement (Buy Out Option) | (56) |
| 10.61.10 | Agreement dated as of November 18, 2013 by and among Emeritus Corporation and Daniel R. Baty relating to a cash flow sharing agreement (Buy Out Option). | (65) |
| 10.62 | Documents Relating to Debt Financing with General Electric Capital Corporation (4 Communities). | |
| 10.62.01 | Three Purchase and Sale Agreements dated August 5, 2005 between registrant, as purchaser, and three entities, as sellers (Exhibits 10.86.1, 10.86.2 and 10.86.3). | (17) |

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| 10.62.04 | Purchase and Sale Agreement dated June 16, 2006 between Silver Lake Assisted Living, LLC, as seller, and ESC-Arbor Place, LLC, as purchaser (Exhibit 10.87.2). | (19) |
| 10.62.05 | Loan Agreement dated June 30, 2006 between ESC Arbor Place, LLC, as borrower, and General Electric Capital Corporation and other financial institutions, collectively as lender, relating to one assisted living community (Exhibit 10.87.1).relating to one assisted living community (Exhibit 10.87.1). | (18) |
| 10.62.06 | Promissory Note of ESC-Arbor Place, LLC dated June 30, 2006 in the principal amount of \$8,000,000 payable to General Electric Capital Corporation. | (24) |
| 10.62.07 | Second Amendment to Loan Agreement dated December 31, 2008 between ESC Arbor Place, LLC, as borrower, and General Electric Capital Corporation as lender. | (35) |
| 10.63 | Documents Relating to Joint Venture with Blackstone Group. | |
| 10.63.05 | Purchase and Sale Agreement dated May 4, 2011 between Emeritus Corporation and BRE A 806 LLC. | (52) |
| 10.63.06 | Second Amended and Restated Credit Agreement in the amount of \$220.0 million dated as of June 1, 2011 among BRE A Emeritus LLC and each of its subsidiaries, collectively as borrowers, various financial institutions named therein, collectively as lenders, and General Electric Capital Corporation as agent. | (53) |
| 10.63.07 | Amended and Restated Note dated June 1, 2011 by and among BRE A Emeritus LLC and each of its subsidiaries and General Electric Capital Corporation in the amount of \$220.0 million. | (53) |
| 10.63.08 | Third Amendment and Consent to Second Amended and Restated Credit Agreement dated as of June 30, 2013 among BRE A Emeritus LLC and each of its subsidiaries, collectively as borrowers, various financial institutions named therein, collectively as lenders, and General Electric Capital Corporation as agent. | (65) |
| 10.65 | Documents Relating to Purchase of Communities from Health Care Properties Investors, Inc. (9 Communities) Dated 2007. | |
| 10.65.1 | Purchase and Sale Agreement and Joint Escrow Instructions dated March 15, 2007 between Health Care Properties Investors Trust, as seller, and registrant, as buyer (Exhibit 10.14.1). | (21) |
| 10.66 | Documents Relating to Purchase of Communities from Wegman/Manor Number One thru Number Four , LLC (9 Communities) Dated 2007. | |
| 10.66.01 | Purchase and Sale Agreement dated June 8, 2007, by and between Wegman/Manor Number One thru Number Four , LLC, and Emeritus Corporation. | (23) |
| 10.66.02 | Fannie Mae Multifamily Increased Consolidated & Restated Mortgage & Security Agreement dated August 31, 2007 between Meriweg-Syracuse, LLC (Bellevue Manor) and Red Mortgage Capital, Inc. Agreement represents an example of three communities agreements. | (27) |
| 10.66.03 | Amended and Restated Multifamily Note dated August 31, 2007 between Meriweg-Syracuse, LLC (Bellevue Manor) and Red Mortgage Capital, Inc. Agreement represents an example of three communities agreements. | (27) |
| 10.66.04 | Fannie Mae Multifamily Mortgage, Assignment of Rents & Security Agreement dated August 31, 2007 between Meriweg-Rochester, LLC and Red Mortgage Capital, Inc. Agreement represents an example of three communities agreements. | (27) |
| 10.66.05 | Fannie Mae Multifamily Mortgage, Assignment of Rents & Security Agreement dated August 31, 2007 between Meriweg-Williamsville BPM, LLC and Red Mortgage Capital, Inc. represents an example of three communities agreements. | (27) |
| 10.66.06 | Multifamily Note dated August 31, 2007 between Meriweg-Williamsville BPM, LLC, and Red Mortgage Capital, Inc. Agreement represents an example of six communities. | (27) |
| 10.67 | Documents Relating to the Purchase of Communities from Health Care Properties Investors, Inc. (40 Communities) Dated 2007. | |
| 10.67.01 | Purchase and Sale Agreement dated June 14, 2007, by and between HCPI, HCPI Trust, Emeritus Realty V, LLC, ESC-La Casa Grande, LLC, Texas HCP Holding, LP, HCP AL of Florida, LLC, and Emeritus Corporation. | (25) |
| 10.67.02 | Amended and Restated Purchase and Sale Agreement dated July 31, 2007 by and between HCPI, HCPI Trust, Emeritus Realty V, LLC, ESC-La Casa Grande, LLC and Texas HCP Holding LP and Emeritus Corporation. | (27) |
| 10.67.03 | Purchase and Sale Agreement dated July 31, 2007 by and among HCPI and Emeritus Corporation as Buyer (Boise, ID). | (27) |
| 10.67.04 | Purchase and Sale Agreement dated July 31, 2007 by and among HCPI and Emeritus Corporation as Buyer (Cedar Rapids). | (27) |
| 10.67.05 | Purchase and Sale Agreement dated July 31, 2007 by and among HCPI and Emeritus Corporation as Buyer (Escondido Ca, Puyallup, WA). | (27) |

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| 10.67.06 | Purchase and Sale Agreement dated July 31, 2007 by and between HCPI and FAEC Holdings (EP), LLC and Emeritus Corporation as Buyer (Escondido Ca, Puyallup, WA) (Morristown, Lewiston, & Stockton). | (27) |
| 10.67.13 | Fannie Mae Multifamily Mortgage, Assignment of Rents & Security Agreement dated August 15, 2007 between Emerichip Voorhees, LLC and Capmark Bank (Laurel Lakes Estates). | (27) |
| 10.67.14 | Multifamily Note dated August 15, 2007 in principal amount of \$6.975 million between Emerichip Voorhees, LLC, and Capmark Bank. (Laurel Lake Estates). | (27) |
| 10.68 | Documents Relating to the Purchase of Communities from Health Care REIT, Inc. (3 Communities) Dated 2007. | |
| 10.68.01 | Loan Agreement dated August 6, 2007 between HC3 FT Meyer, HC3 Orlando, & HC3 Sunrise, subsidiaries of registrant, as borrowers, and General Electric Capital Corporation as lender. | (27) |
| 10.68.02 | Promissory Note of HC3 Ft. Meyer, Orlando, & Sunrise dated August 6, 2007 in the principal amount of \$19.6 million payable to General Electric Capital Corporation. | (27) |
| 10.68.03 | Amended, Restated and Consolidated Credit Agreement, dated as of January 31, 2011, among Emerimesa, LLC, ESC-Arbor Place, LLC, HC3 Ft. Myers LLC, HC3 Orlando LLC, HC3 Sunrise LLC, and General Electric Capital Corporation. | (53) |
| 10.68.04 | Promissory Note dated January 31, 2011 by and between Emerimesa, LLC, ESC-Arbor Place, LLC, Ft. Myers LLC, HC3 Orlando LLC and HC3Sunrise LLC in the principal amount of \$31.8 million payable to General Electric Capital Corporation. | (53) |
| 10.70 | Documents Relating to the Purchase of communities from Nationwide Health Properties, Inc. (NHP) (24 communities) Dated 2008. | |
| 10.70.01 | Purchase Sale Agreement dated February 6, 2008 by and among Nationwide Health Properties, Inc. (NHP) and its affiliated signatories and Emeritus Corporation. | (30) |
| 10.70.02 | First Amendment to Purchase Sale Agreement dated March 25, 2008 by and among Nationwide Health Properties, Inc. (NHP) and its affiliated signatories and Emeritus Corporation. | (31) |
| 10.70.03 | Master Credit Facility Agreement dated April 1, 2008 by and among Borrowers signatory hereto and Capmark Finance, Inc. | (31) |
| 10.70.04 | Master Promissory Note dated April 1, 2008 in the principal amount of \$241,889,868. payable to Capmark Bank. | (31) |
| 10.70.05 | Promissory Note of Emeritus Corporation dated March 31, 2008 in the principal amount of \$30 million payable to Nationwide Health Properties, Inc. | (31) |
| 10.70.07 | First Amendment to Master Credit Facility Agreement dated December 9, 2011 by and among Emeritus Corporation and 22 LLC subsidiaries, Berkadia Commercial Mortgage LLC and Fannie Mae. | (56) |
| 10.71 | Documents Relating to the Purchase and Financing of Communities from Health Care REIT, Inc. (29 Communities) Dated 2008. | |
| 10.71.01 | Asset Purchase Agreement dated June 9,2008 by Emeritus Corporation and Health Care REIT, Inc. together with the affiliates of HCN. | (32) |
| 10.71.02 | First Amendment to the Asset Purchase Agreement dated June 30, 2008 by and between Emeritus Corporation and Health Care REIT, Inc together with the affiliates of HCN. | (32) |
| 10.71.03 | Freddie Mac Multifamily Mortgage, Assignment of Rents and Security Agreement Effective Markets, Inc. a representative example of 18 communities which in total equal \$163.2 million. | (32) |
| 10.71.04 | Freddie Mac Multifamily Note Effective June 30, 2008, EMERITOL WOODS AT EDDY POND LLC jointly and severally promises to pay KEYCORP REAL ESTATE CAPITAL MARKETS, INC. a representative example of 18 communities which in total equal \$163.2 million. | (32) |
| 10.71.05 | Promissory Note Dated June 30, 2008 in the principal amount of \$50.0 million payable to Health Care Reit, Inc. | (32) |
| 10.71.06 | Second Amendment to the Asset Purchase Agreement dated October 16, 2008 by and between Emeritus Corporation and Health Care REIT, Inc together with the affiliates of HCN. | (34) |
| 10.71.07 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents Security Agreement and Fixture Filing Effective October, 2008 by Emeritol Eastman Estates LLC to Rebecca S. Conrad, ESQ for the benefit of KeyCorp Real Estate Capital Markets, Inc. a representative example of 5 communities which in total equal \$29 million. | (34) |
| 10.71.08 | Freddie Mac Multifamily Note Effective October 16, 2008, Emeritol Eastman Estates LLC promises to pay KEYCORP REAL ESTATE CAPITAL MARKETS, INC.a representative example of 5 communities which in total equal \$29 million. | (34) |

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| 10.71.09 | Loan Agreement dated October 17, 2008 by and between Emeritol Dowlen Oaks LLC, Saddleridge Lodge LLC, Seville Estates LLC as borrowers and Keybank National Association as Lender for \$17.595 million. | (34) |
| 10.71.10 | Loan Agreement dated October 17, 2008 by and between Emeritol Stonecreek Lodge LLC, Meadowbrook LLC, as borrowers and Keybank National Association as Lender for \$9.8 million. | (34) |
| 10.71.11 | LLC Agreement of Batus, LLC a Delaware LLC Effective October 15, 2008. | (34) |
| 10.71.12 | Guaranty dated October 17, 2008 given by Emeritus Corporation to and for the Benefit of Keybank for \$17.6 million loan. | (34) |
| 10.71.13 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents Security Agreement and Fixture Filing Effective November 12, 2009 by Emeritol Saddleridge Lodge LLC to Rebecca S. Conrad, ESQ for the benefit of KeyCorp Real Estate Capital Markets, Inc. for \$6.442 million. | (39) |
| 10.71.14 | Freddie Mac Multifamily Note Effective November 12, 2009 Emeritol Saddleridge Lodge LLC jointly and severally promises to pay KEYCORP REAL ESTATE CAPITAL MARKETS, INC. the principal sum \$6.442 million. | (39) |
| 10.71.15 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents Security Agreement and Fixture Filing Effective November 12, 2009 by Emeritol Seville Estates LLC to Rebecca S. Conrad, ESQ for the benefit of KeyCorp Real Estate Capital Markets, Inc. for \$2.158 million. | (39) |
| 10.71.16 | Freddie Mac Multifamily Note Effective November 12, 2009 Emeritol Seville Estates LLC jointly and severally promises to pay KEYCORP REAL ESTATE CAPITAL MARKETS, INC. the principal sum \$2.158 million. | (39) |
| 10.71.17 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents, and Security Agreement Effective November 12, 2009 by Emeritol Meadowbrook LLC to Chicago Title Insurance, for the benefit of KeyCorp Real Estate Capital Markets, Inc. for \$3.731 million. | (39) |
| 10.71.18 | Freddie Mac Multifamily Note Effective November 12, 2009 Emeritol Meadowbrook LLC jointly and severally promises to pay KEYCORP REAL ESTATE CAPITAL MARKETS, INC. the principal sum \$3.731 million. | (39) |
| 10.71.19 | Loan Modification Agreement dated October 30, 2009 by and among Emeritol Dowlen Oaks LLC, as borrower, Keybank National Association as Lender, Emeritus Corporation and Daniel R. Baty jointly and severally as Guarantor for \$6.96 million. | (39) |
| 10.71.20 | Amended and Restated Promissory Note of Emeritol Dowlen Oaks LLC dated November 12, 2009 Promises to pay Keybank National Association the principal amount of \$6.96 million. | (39) |
| 10.71.21 | Loan Modification Agreement dated October 30, 2009 by and among Emeritol Stonecreek Lodge LLC as borrower, Keybank National Association as Lender, and Emeritus Corporation as Guarantor for the principal amount of \$7.2075 million. | (39) |
| 10.71.22 | Amended and Restated Promissory Note of Emeritol Stonecreek Lodge LLC dated November 12, 2009 promises to pay Keybank National Association the principal amount of \$7.2075 million. 2009 promises to pay Keybank National Association the principal amount of \$7.2075 million. | (39) |
| 10.71.23 | First Amended and Restated Promissory Note Dated July 9, 2010 in the principal amount of \$50.0 million payable to Health Care Reit, Inc. | (46) |
| 10.71.24 | Fannie Mae Multifamily Deed of Trust, Assignment of Rents and Security Agreement and KeyCorp Real Estate Capital Markets, Inc. | (47) |
| 10.71.25 | Fannie Mae Multifamily Note of Emeritol Dowlen Oaks LLC effective November 1, 2010 in the principal amount of \$4.475 million payable to KeyCorp Real Estate Capital Markets, Inc. | (47) |
| 10.72 | Documents Relating to the Purchase of Communities from Ventas Realty, LP. (5 Communities) Dated 2008. | |
| 10.72.01 | Agreement for the Sale of Real Estate dated July 25, 2008 between Ventas Realty LP and Emeritus Corporation for the property commonly referred to as Atherton Court Alzheimer's Residence. | (33) |
| 10.72.02 | Agreement for the Sale of Real Estate dated July 25, 2008 between Ventas Realty LP and Emeritus Corporation for the property commonly referred to as Golden Pond Assisted Living. | (33) |
| 10.72.03 | Agreement for the Sale of Real Estate dated July 25, 2008 between Ventas Realty LP and Emeritus Corporation for the property commonly referred to as Summerville at Brighton. | (33) |

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| 10.72.04 | Agreement for the Sale of Real Estate dated July 25, 2008 between Ventas Realty LP and Emeritus Corporation for the property commonly referred to as Summerville at Lake Mary. | (33) |
| 10.72.05 | Agreement for the Sale of Real Estate dated July 25, 2008 between Ventas Realty LP and Emeritus Corporation for the property commonly referred to as Summerville at Mentor. | (33) |
| 10.72.06 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing Effective December 19, 2008 by Emerivent Atherton Court Inc to First American Title Insurance Company for the benefit of Capmark Bank. | (34) |
| 10.72.07 | Freddie Mac Multifamily Mortgage, Assignment of Rents, and Security Agreement Effective December 19, 2008 between Emerivent Mentor LLC and Capmark Bank. | (34) |
| 10.72.08 | Freddie Mac Multifamily Mortgage, Assignment of Rents, and Security Agreement Effective December 19, 2008 between Emerivent Lake Mary LLC and Capmark Bank. | (34) |
| 10.72.09 | Freddie Mac Multifamily Note Effective December 19, 2008 Emerivent Atherton Court jointly and severally promises to pay \$5.351 million to Capmark Bank. | (34) |
| 10.72.10 | Freddie Mac Multifamily Note Effective December 19, 2008 Emerivent Mentor jointly and severally promises to pay \$15.4 million to Capmark Bank. | (34) |
| 10.72.11 | Freddie Mac Multifamily Note Effective December 19, 2008 Emerivent Lake Mary jointly and severally promises to pay \$5.17 million to Capmark Bank. | (34) |
| 10.72.15 | Freddie Mac Multifamily Note Effective March 29, 2011 Emerivent Bradenton LLC jointly and severally promises to pay \$6.2 million to Oak Grove Commercial Mortgage, LLC. | (51) |
| 10.72.16 | Freddie Mac Multifamily Note Effective March 29, 2011 Emerivent Brighton, LLC jointly and severally promises to pay \$11.65 million to Oak Grove Commercial Mortgage, LLC. | (51) |
| 10.73 | Documents Relating to the Lease of Communities from affiliates of HCP (collectively "HCP") (11 Communities) Dated 2008. | |
| 10.73.01 | Master Lease and Security Agreement dated August 22, 2008 between Affiliates of HCP (collectively "HCP") and Emeritus Corporation (11 communities). | (33) |
| 10.73.02 | First Amendment to Master Lease and Security Agreement dated October 20, 2008 between Affiliates of HCP (collectively "HCP") and Emeritus Corporation (11 communities). | (34) |
| 10.73.03 | Second Amendment to Master Lease and Security Agreement dated November 14, 2008 between Affiliates of HCP (collectively "HCP") and Emeritus Corporation (11 communities). | (34) |
| 10.73.04 | Third Amendment to Master Lease and Security Agreement dated November 14, 2008 between Affiliates of HCP (collectively "HCP") and Emeritus Corporation (11 communities). | (35) |
| 10.73.06 | Fifth Amendment to Master Lease and Security Agreement dated February 15, 2009 between Affiliates of HCP (collectively "HCP") and Emeritus Corporation (12 communities). | (42) |
| 10.73.07 | Tenth Amendment to Master Lease and Security Agreement dated as of June 14, 2013 between HCP and Emeritus Corporation. | (64) |
| 10.74 | Documents Relating to the Lease of Communities from BV Holding-LTC, Inc. (12 Communities) Dated 2008. | |
| 10.74.01 | Master Lease agreement dated November 18, 2008 between BV Holding_LTC, Inc. and Emeritus Corporation (2 communities). | (34) |
| 10.75 | Documents Relating to Debt Financing with Nationwide Health Properties, Inc. Dated 2008. | |
| 10.75.01 | Second Amendment to Loan Agreement dated March 3, 2008 between with NHP and Emeritus Corporation (2 communities). | (35) |
| 10.75.02 | Third Amendment to Loan Agreement dated October 22, 2008 between NHP and Emeritus Corporation. | (35) |
| 10.75.03 | Fourth Amendment to Loan Agreement dated November 1, 2010 between NHP and Emeritus Corporation. | (47) |
| 10.75.04 | Amended and Restated Promissory Note of Emeritus Corporation dated November 1, 2010, in the principal amount of \$30.0 million payable to Nationwide Health Properties, Inc. | (47) |
| 10.76 | Documents Relating to Debt Financing with Capmark Bank (7 communities) Dated 2008. | |

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| 10.76.01 | Freddie Mac Multifamily Mortgage, Security, Assignment of Rents and Security Agreement dated December 30, 2008 between EMERICHIP Dover, LLC and Capmark Bank. Representative example of 7 communities which in total equal \$36.3 million. | (35) |
| 10.77 | Documents Relating to the Lease of Communities with National Health Investors (8 communities) Dated 2009. | |
| 10.77.01 | Master Lease dated October 13, 2009 between National Health Investors, Inc. and Emeritus Corporation (8 Communities). | (39) |
| 10.77.02 | First Amendment to Master Lease dated December 1 2009 by and between Emeritus Corporation and National Health Investors, Inc. (8 Communities). | (39) |
| 10.78 | Documents Relating to the BRE/SW Portfolio LLC (144 communities) Dated 2010. | |
| 10.78.01 | Limited Liability Company Agreement by and between Emeritus Corporation, CPDF II, LLC and BRE/SW Member LLC dated January 15, 2010. | (43) |
| 10.78.02 | Agreement of Purchase and Sale dated January 15, 2010 between Stayton SW Assisted Living, LLC and BRE/SW Portfolio LLC dated January 15, 2010. | (43) |
| 10.78.03 | Amendment No. 1 to Agreement of Purchase and Sale between Stayton SW Assisted Living, LLC and BRE/SW Portfolio LLC Dated February 12, 2010. | (43) |
| 10.78.04 | Amendment No. 2 to Agreement of Purchase and Sale between Stayton SW Assisted Living, LLC and BRE/SW Portfolio LLC Dated March 25, 2010. | (43) |
| 10.78.05 | Amendment No. 3 to Agreement of Purchase and Sale between Stayton SW Assisted Living, LLC and BRE/SW Portfolio LLC Dated March 25, 2010. | (46) |
| 10.78.06 | Amended and Restated Limited Liability Company Agreement by and among Emeritus Corporation, CPDF II, LLC, BRE/SW Member LLC, and Sunwest Rollover Member LLC, dated August 5, 2010. | (48) |
| 10.78.07 | Representative Management Agreement dated August 5, 2010 among entities related to BRE/SW Portfolio LLC, as owner and licensee, and Emeritus Corporation, as manager. | (48) |
| 10.78.08 | Purchase and Sale Agreement dated October 16, 2012 by and among BRE/SW Portfolio LLC, the seller entities, HCP, Inc., and Emeritus Corporation | (60) |
| 10.78.09 | Master Lease and Security Agreement dated October 31, 2012 between affiliates of HCP, Inc. and Emeritus Corporation | (61) |
| 10.78.10 | First Amendment to Master Lease and Security Agreement dated December 4, 2012 by and between affiliates of HCP, Inc. and Emeritus Corporation | (61) |
| 10.78.11 | Loan Agreement dated October 31, 2012 between HCP, Inc. and Emeritus Corporation | (60) |
| 10.78.12 | Promissory Note dated October 31, 2012 between HCP, Inc. and Emeritus Corporation in the amount of \$52.0 million. | (60) |
| 10.79 | Documents Relating to the Purchase of Trace Pointe (1 Community) Dated 2009. | |
| 10.79.01 | Purchase and Sale Agreement Dated September 29, 2009 between Emeritus Corporation as Buyer and Clinton Assisted Living LLC as Seller. | (39) |
| 10.79.02 | Fannie Mae Multifamily Note Dated October 1, 2009 between Emeritrac LLC and Capmark Bank in the principal amount of \$12.150 million to Capmark Bank. | (39) |
| 10.80 | Documents Relating to Leases with HCP (5 Communities) Dated 2010. | |
| 10.80.01 | Master Lease and Security Agreement among HCP, Inc. and Texas HCP Holding, L.P., as Lessor, and Emeritus Corporation, as Lessee, dated as of May 14, 2010. | (44) |
| 10.80.02 | First Amendment to Master Lease and Security Agreement among HCP, Inc. and Texas HCP Holding, L.P., as Lessor, and Emeritus Corporation, as Lessee, dated June 8, 2010. | (48) |
| 10.80.03 | Second Amendment to Master Lease and Security Agreement among HCP, Inc. and Texas HCP Holding, L.P., as Lessor, and Emeritus Corporation, as Lessee, dated September 30, 2010. | (48) |
| 10.81 | Documents Relating to Leases with HCP (27 Communities) Dated 2010. | |
| 10.81.01 | Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 12, 2010 (Master Lease #1, 17 communities). | (48) |
| 10.81.02 | Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 12, 2010 (Master Lease #2, 10 communities). | (48) |

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| 10.81.03 | First Amendment to Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 15, 2010 (Master Lease #1). | (48) |
| 10.81.04 | First Amendment to Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 12, 2010 (Master Lease #2). | (48) |
| 10.81.05 | Second Amendment to Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 22, 2010 (Master Lease #1). | (48) |
| 10.81.06 | Second Amendment to Master Lease and Security Agreement among between Affiliates of HCP, Inc. as Lessor, and Emeritus Corporation, as Lessee, dated October 22, 2010 (Master Lease #2). | (48) |
| 10.83 | Documents Relating to Debt Financing with Keybank National Association (3 communities) Dated 2010. | |
| 10.83.01 | Loan Agreement dated November 30, 2010 entered into by Keybank National Association (Lender) and Emerichenal LLC, Emericlear LLC, and Emerimand LLC (together as Borrowers). | (29) |
| 10.83.02 | Promissory Note Dated November 30, 2010, by and between Emerichenal LLC, Emericlear LLC, and Emerimand LLC, and Keybank National Association in the principal amount of \$28.0 million. | (29) |
| 10.83.03 | Multifamily Loan and Security Agreement between Emerimand LLC and Keycorp Real Estate Capital Markets, Inc. | (58) |
| 10.83.04 | Consolidated, Amended and Restated Multifamily Note between Emerimand and Keycorp Real Estate Capital Markets, Inc. | (58) |
| 10.83.05 | Loan Modification Agreement dated November 30, 2012 by KeyBank N.A., Emerichenal LLC, Emericlear LLC and Emeritus Corporation. | (60) |
| 10.83.06 | Multifamily Mortgage, Assignment of Rent and Security Agreement dated as of July 30, 2013, between Emerichenal LLC and KeyCorp Real Estate Capital Markets, Inc. | (64) |
| 10.83.07 | Freddie Mac Multifamily Note dated as of July 30, 2013 in the amount of \$6,637,500, payable by Emerichenal LLC to KeyCorp Real Estate Capital Markets, Inc. (Emeritus at Chenal Heights). | (64) |
| 10.84 | Shared Opportunity Agreement between Registrant and Mr. Daniel R. Baty. | |
| 10.84.01 | Shared Opportunities Agreement between Emeritus Corporation and Daniel R. Baty dated January 19, 2011. | (49) |
| 10.85 | Documents Relating to the Purchase of the Emeritus at Mandeville Community in 2011. | |
| 10.85.01 | Fannie Mae Multifamily Mortgage, Assignment of Rents and Security Agreement dated as of March 31, 2011 between EmeriMandeville LLC and KeyCorp Real Estate Capital Markets, Inc. | (53) |
| 10.85.02 | Multifamily Note dated March 31, 2011 between EmeriMandeville LLC and KeyCorp Real Estate Capital Markets, Inc. in the amount of \$7.8 million. | (53) |
| 10.86 | Documents Relating to the Purchase of Emeritus at Spruce Wood and Emeritus at Fillmore Pond in 2011. | |
| 10.86.01 | Fannie Mae Multifamily Mortgage, Assignment of Rents and Security Agreement dated May 16, 2011 between Emerishire LLC and Wells Fargo Bank, N.A. | (54) |
| 10.86.02 | Multifamily Note dated May 16, 2011 in the amount of \$14.1 million between Emerishire LLC and Wells Fargo Bank, N.A. | (54) |
| 10.86.03 | Fannie Mae Multifamily Mortgage, Assignment of Rents and Security Agreement dated July 8, 2001 between Emerimont LLC and Wells Fargo Bank, N.A. | (54) |
| 10.86.04 | Multifamily Note dated July 8, 2011 in the amount of \$15.8 million between Emerimont LLC and Wells Fargo Bank, N.A. | (54) |
| 10.87 | Documents Relating to the Purchase of Emeritus at Vista Oaks and Emeritus at Summer Ridge in 2011. | |
| 10.87.01 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents and Security Agreement and Fixture Filing dated July 6, 2011 between Emerivista LLC and Oak Grove Commercial Mortgage, LLC. | (54) |
| 10.87.02 | Multifamily Note dated July 6, 2011 in the amount of \$6.075 million between Emerivista LLC and Oak Grove Commercial Mortgage, LLC. | (54) |
| 10.87.03 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents and Security Agreement and Fixture Filing dated July 6, 2011 between Emerirock LLC and Oak Grove Commercial Mortgage, LLC. | (54) |

| | | |
|--------------|--|------|
| 10.87.04 | Multifamily Note dated July 6, 2011 in the amount of \$8.63 million between Emerirock LLC and Oak Grove Commercial Mortgage, LLC. | (54) |
| 10.88 | Documents Relating to Debt Financing with Keybank National Association (3 communities) in 2011. | |
| 10.88.01 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents and Security Agreement dated August 31, 2011 between Emerikeyt LO of Broadmoor LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.88.02 | Multifamily Note dated August 31, 2011 in the amount of \$9.99 million between Emerikeyt LO of Broadmoor LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.88.03 | Freddie Mac Multifamily Deed of Trust, Assignment of Rents and Security Agreement dated August 31, 2011 between The Inn at Grove City LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.88.04 | Multifamily Note dated August 31, 2011 in the amount of \$14.2 million between The Inn at Grove City LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.88.05 | Freddie Mac Multifamily Mortgage, Assignment of Rents and Security Agreement dated August 31, 2011 between Emeritol Stonecreek Lodge LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.88.06 | Multifamily Note dated August 31, 2011 in the amount of \$4.57 million between Emeritol Stonecreek Lodge LLC and KeyCorp Real Estate Capital Markets, Inc. | (54) |
| 10.89 | Documents Relating to Debt Financing with Synovus Bank (4 communities) in 2011. | |
| 10.89.01 | Loan Agreement dated September 29, 2011 by and between Emeripark SC LLC, Emeri-Sky SC LLC, Emerivill SC, LLC, Heritage Hills Retirement, Inc. and First Commercial Bank, a division of Synovus Bank. | (56) |
| 10.89.02 | Promissory Note dated September 29, 2011 in the amount of \$25.0 million by and between Emeripark SC LLC, Emeri-Sky SC LLC, Emerivill SC, LLC, Heritage Hills Retirement, Inc. and First Commercial Bank, a division of Synovus Bank. | (56) |
| 10.89.03 | Promissory Note dated September 29, 2011 in the amount of \$4.6 million by and between Emeripark SC LLC, Emeri-Sky SC LLC, Emerivill SC, LLC, Heritage Hills Retirement, Inc. and First Commercial Bank, a division of Synovus Bank. | (56) |
| 10.90 | Documents Relating to Debt Financing with KeyBank N.A. (16 communities) in 2011. | |
| 10.90.01 | Loan Agreement dated October 27, 2011 in the amount of \$112.0 million by KeyBank National Association, Emerihrt Bloomsburg LLC, Emerihrt Roanoke LLC, Emerihrt Creekview LLC, Emerihrt Danville LLC, Emerichip Stockton LLC, Emerichip Walla Walla LLC, Emerihrt Greensboro LLC, Emerihrt Harrisburg LLC, Emerihrt Harrisonburg LLC, Emerichip Phoenix LLC, Emerihrt Ravenna LLC, PHNTUS LO Joliet SCU LLC, Emerihrt Henderson LP, Emerihrt Medical Center LP, Emerihrt Oakwell Farms LP and Emerihrt Stonebridge Ranch LP. | (56) |
| 10.90.02 | Amended and Restated Promissory Note dated October 27, 2011 in the amount of \$112.0 million by KeyBank National Association, Emerihrt Bloomsburg LLC, Emerihrt Roanoke LLC, Emerihrt Creekview LLC, Emerihrt Danville LLC, Emerichip Stockton LLC, Emerichip Walla Walla LLC, Emerihrt Greensboro LLC, Emerihrt Harrisburg LLC, Emerihrt Harrisonburg LLC, Emerichip Phoenix LLC, Emerihrt Ravenna LLC, PHNTUS LO Joliet SCU LLC, Emerihrt Henderson LP, Emerihrt Medical Center LP, Emerihrt Oakwell Farms LP and Emerihrt Stonebridge Ranch LP. | (56) |
| 10.90.03 | Modification of Loan Agreements dated September 7, 2012 by KeyBank National Association, Emerihrt Roanoke LLC, Emerihrt Creekview LLC, Emerichip Stockton LLC, Emerihrt Greensboro LLC, Emerihrt Harrisburg LLC, Emerichip Phoenix LLC, Emerihrt Ravenna LLC, PHNTUS LO Joliet SCU LLC, and Emerihrt Medical Center LP. | (60) |
| 10.90.04 | Multifamily Mortgage, Assignment of Rent and Security Agreement effective as of July 30, 2013, between Emerihrt Harrisburg LLC and KeyCorp Real Estate Capital Markets, Inc. | (64) |
| 10.90.05 | Freddie Mac Multifamily Note dated as of July 30, 2013 in the amount of \$3,375,000, payable by Emerihrt Harrisburg LLC to KeyCorp Real Estate Capital Markets, Inc. (Emeritus at Harrisburg). | (64) |
| 10.90.06 | Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing effective as of July 30, 2013, between Emerihrt Medical Center LP and KeyCorp Real Estate Capital Markets, Inc. | (64) |
| 10.90.07 | Freddie Mac Multifamily Note dated as of July 30, 2013 in the amount of \$7,857,500, payable by Emerihrt Medical Center LP KeyCorp Real Estate Capital Markets, Inc. (Emeritus at Kingsley Place Medical Center). | (64) |
| 10.91 | Documents Relating to Debt Financing with KeyBank N.A. and Fannie Mae (7 communities) in 2011. | |

| | | |
|--------------|--|------|
| 10.91.01 | Multifamily Loan and Security Agreement dated December 22, 2011 (effective December 29, 2011) by and between Emerihrt Bloomsburg LLC and KeyCorp Real Estate Capital Markets, Inc. | (56) |
| 10.91.02 | Multifamily Note dated December 22, 2011 (effective December 29, 2011) by and between Emerihrt Bloomsburg LLC and KeyCorp Real Estate Capital Markets, Inc. | (56) |
| | These are representative examples of seven communities (Bloomsburg, Danville, Harrisonburg, Henderson, Oakwell Farms, Ravenna and Stonebridge) that in total equal \$53.295 million. | |
| 10.92 | Documents Relating to HUD Financing with Oak Grove Commercial Mortgage, LLC (3 communities). | |
| 10.92.01 | Deed of Trust Note dated December 1, 2011 in the amount of \$8,925,000 between Emerichip San Antonio AO LP and Oak Grove Commercial Mortgage, LLC. | (56) |
| 10.92.02 | Deed of Trust Note dated December 1, 2011 in the amount of \$4,819,500 between Emeriprez LLC and Oak Grove Commercial Mortgage, LLC. | (56) |
| 10.92.03 | Deed of Trust Note dated December 1, 2011 in the amount of \$4,165,000 between Emerichip Everett LLC and Oak Grove Commercial Mortgage, LLC. | (56) |
| 10.93 | Documents related to Loan between Midcap Funding VIII, LLC and Emerichip Walla Walla LLC. | |
| 10.93.01 | Credit and Security Agreement dated as of July 13, 2012 by and among Emerichip Walla Walla LLC and Midcap Funding VIII, LLC | (59) |
| 10.93.02 | Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated as of July 31, 2012 by and among Emerichip Walla Walla LLC (Grantor), Stewart Title Guaranty Company (Trustee), and Midcap Funding VIII, LLC (Beneficiary) | (59) |
| 10.93.03 | Term Loan Note in the amount of \$6,800,000 dated as of July 13, 2012 among Emerichip Walla Walla LLC (Borrower) and Midcap Funding VIII, LLC (together with its successors and assigns, Lender) | (59) |
| 10.94 | Documents related to the acquisition of Nurse on Call, Inc. | (60) |
| 10.94.01 | Unit Purchase Agreement dated November 1, 2012 among Home Health Care Holdings, LLC, Emeritus Corporation, EmeriCare NOC LLC, the members of Home Health Care Holdings, LLC, and Kinderhook Industries, Inc. as seller representative. | (60) |
| 10.94.02 | Put/Call Agreement dated November 1, 2012 by and among Emeritus Corporation, EmeriCare NOC LLC, and the Minority Members. | (60) |
| 10.94.03 | Term Credit Agreement dated February 25, 2013 among Nurse On Call, Inc. and subsidiaries, Home Health Care Holdings LLC, Emericare NOC LLC, Emeritus Properties III, LLC, and Emeritus Corporation, as Guarantors, and KeyBank National Association. | (62) |
| 10.94.04 | Term Promissory Note in the amount of \$30,000,000 dated February 25, 2013 between Nurse On Call, Inc. and subsidiaries and KeyBank National Association | (62) |
| 10.94.05 | Term Promissory Note in the amount of \$20,000,000 dated February 25, 2013 between Nurse On Call, Inc. and subsidiaries and Cadence Bank, N.A. | (62) |
| 10.94.06 | Amendment to Put/Call Agreement dated November 1, 2012 by and among Emeritus Corporation, EmeriCare NOC LLC and several Minority Members dated February 25, 2013. | (62) |
| 10.94.07 | Buy-Out Agreement as of December 19, 2013 by and among Emeritus Corporation, EmeriCare NOC LLC and the Minority Members of NOC. | (65) |
| 10.95 | Documents Relating to HUD Financing with KeyCorp Real Estate Capital Markets, Inc. (Olive Grove). | |
| 10.95.01 | Security Agreement dated November 1, 2012 by and between Emerichip Phoenix LLC and KeyCorp Real Estate Capital Markets, Inc. | (60) |
| 10.95.02 | Deed of Trust dated November 1, 2012 by and between Emerichip Phoenix LLC and KeyCorp Real Estate Capital Markets, Inc. | (60) |
| 10.95.03 | Deed of Trust Note dated November 1, 2012, in the amount of \$4,080,000, by and between Emerichip Phoenix LLC and KeyCorp Real Estate Capital Markets, Inc. | (60) |
| 10.96 | Documents related to the Diablo Lodge Lease. | |
| 10.96.01 | Diablo Lodge lease dated January 15, 2013 between Diablo Lodge, LLC, Landlord, and Emeritus Corporation, Tenant. | (62) |
| 10.97 | Documents related to the lease of 38 communities from Health Care REIT, Inc. and affiliates ("HCN"). | |

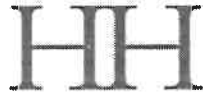
| | | |
|--------------|--|------|
| 10.97.01 | Master Lease Agreement (Master Lease #7 - MG Facilities - Fannie Lease #2 (PNC)) dated as of September 1, 2013 by and among HCN and Emeritus Corporation. | (64) |
| 10.98 | Documents related to the lease of one community from NHI-REIT of Ohio, LLC (Emeritus at Halcyon Village). | |
| 10.98.01 | Master Lease dated as of June 28, 2013 by and between Emeritus Corporation and NHI-REIT of Ohio, LLC. | (64) |
| 10.99 | Documents Related to Freddie Mac Financing with Berkadia Commercial Mortgage, LLC. | |
| 10.99.01 | Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing effective as of December 3, 2013, between BREA BREA LLC and Fidelity National Title Company as trustee for Berkadia Commercial Mortgage LLC. | (65) |
| 10.99.02 | Multifamily Note dated December 3, 2013 in the amount of \$8,400,000 payable to Berkadia Commercial Mortgage LLC. | (65) |
| 10.99.03 | Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing effective as of December 3, 2013, between BREA Whittier LLC and Fidelity National Title Company as trustee for Berkadia Commercial Mortgage LLC. | (65) |
| 10.99.04 | Multifamily Note dated December 3, 2013 in the amount of \$5,850,000 payable to Berkadia Commercial Mortgage LLC. | (65) |
| 21.1 | Subsidiaries of the registrant. | (65) |
| 23.1 | Consent of independent registered public accounting firm. | (65) |
| 31.1 | Certification of Periodic Reports. | |
| 31.1.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Granger Cobb dated February 20, 2014. | (65) |
| 31.1.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Robert C. Bateman dated February 20, 2014. | (65) |
| 32.1 | Certification of Periodic Reports | |
| 32.1.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Granger Cobb dated February 20, 2014. | (65) |
| 32.1.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Robert C. Bateman dated February 20, 2014. | (65) |
| 101 | XBRL Files | |
| 101.INS | XBRL Instance Document | (65) |
| 101.SCH | XBRL Taxonomy Extension Schema | (65) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | (65) |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | (65) |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | (65) |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | (65) |

Footnotes

- * Indicates a management contract or compensatory plan or arrangement.
- (1) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 29, 1996 and incorporated herein by reference. (With regard to applicable cross-references in this report, the Company's Current, Quarterly and Annual Reports, and its proxy statements, are filed with the SEC under File No. 1-14012.)
 - (2) Filed as the indicated Exhibit to Second Quarter Report on Form 10-Q filed on August 14, 1996 and incorporated herein by reference.
 - (3) Filed as the indicated Exhibit to Third Quarter Report on Form 10-Q filed on November 14, 1996 and incorporated herein by reference.
 - (4) Filed as the indicated Exhibit to Amendment No. 2 to Registration Statement on Form S-3 filed on August 14, 1997 and incorporated herein by reference (SEC File No. 333-20805).
 - (5) Filed as the indicated Exhibit to Amendment No. 3 to Registration Statement on Form S-3 filed on October 29, 1997 and incorporated herein by reference (SEC File No. 333-20805).
 - (6) Filed as the indicated Exhibit to Form 8-K filed on January 14, 2000 and incorporated herein by reference.

- (7) Filed as the indicated appendix to Definitive Proxy Statement filed on August 3, 2000 and incorporated herein by reference.
- (8) Filed as the indicated Exhibit to Form 8-K filed on October 14, 2003 and incorporated herein by reference.
- (9) Filed as the indicated Exhibit to Third Quarter Report on Form 10-Q filed on November 7, 2003 and incorporated herein by reference.
- (10) Filed as the indicated Exhibit to Form 8-K filed on January 14, 2004 and incorporated herein by reference.
- (11) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 30, 2004 and incorporated herein by reference.
- (12) Filed as the indicated Exhibit to Form 8-K filed on October 5, 2004 and incorporated herein by reference.
- (13) Filed as the indicated Exhibit to Form 8-K filed on March 9, 2005 and incorporated herein by reference.
- (14) Filed as the indicated Exhibit to First Quarter Report on Form 10-Q filed on May 13, 2005 and incorporated herein by reference.
- (15) Filed as the indicated Exhibit to Second Quarter Report on Form 10-Q filed on August 15, 2005 and incorporated herein by reference.
- (16) Filed as the indicated Exhibit to Third Quarter Report on Form 10-Q filed on November 14, 2005 and incorporated herein by reference.
- (17) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference.
- (18) Filed as the indicated Exhibit to Second Quarter Report on Form 10-Q filed on August 8, 2006 and incorporated herein by reference.
- (19) Filed as the indicated Exhibit to Third Quarter Report on Form 10-Q filed on November 9, 2006 and incorporated herein by reference.
- (20) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 16, 2007 and incorporated herein by reference.
- (21) Filed as the indicated Exhibit to First Quarter Report on Form 10-Q filed on May 10, 2007 and incorporated herein by reference.
- (22) Filed as the indicated Exhibit to Form 8-K filed on April 2, 2007 and incorporated herein by reference.
- (23) Filed as the indicated Exhibit to Form 8-K filed on June 13, 2007 and incorporated herein by reference.
- (24) Filed as the indicated Exhibit to Registration Statement on Form S-3 Amendment 2 filed June 13, 2007 and incorporated herein by reference (SEC File No. 333-141801).
- (25) Filed as the indicated Exhibit to Form 8-K filed on June 20, 2007 and incorporated herein by reference.
- (26) Filed as the indicated Exhibit to Form 8-K filed on January 26, 2012 and incorporated herein by reference.
- (27) Filed as the indicated Exhibit to Third Quarter Report on Form 10-Q filed on November 9, 2007 and incorporated herein by reference.
- (28) Filed as the indicated Exhibit to Registration Statement on Form S-3 filed December 31, 2007 and incorporated herein by reference (SEC File No. 333-148400).
- (29) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 11, 2011 and incorporated herein by reference.
- (30) Filed as the indicated Exhibit to Form 8-K filed on February 12, 2008 and incorporated herein by reference.
- (31) Filed as the indicated exhibit to First Quarter Report on Form 10-Q filed on May 09, 2008.
- (32) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 08, 2008.
- (33) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 10, 2008.
- (34) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 16, 2009 and incorporated herein by reference.
- (35) Filed as the indicated exhibit to First Quarter Report on Form 10-Q filed on May 11, 2009.
- (36) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 6, 2009.
- (37) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 9, 2009.
- (38) Filed as the indicated Exhibit to Form 8-K filed on January 11, 2010 and incorporated herein by reference.
- (39) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 16, 2010 and incorporated herein by reference.
- (40) Filed as the indicated Exhibit to Form 8-K filed on April 2, 2010 and incorporated herein by reference.

- (41) Filed as the indicated exhibit to Definitive Proxy Statement filed on April 2, 2010 and incorporated herein by reference.
- (42) Filed as the indicated exhibit to First Quarter Report on Form 10-Q filed on May 11, 2010.
- (43) Filed as the indicated Exhibit to Form 8-K filed on May 18, 2010 and incorporated herein by reference.
- (44) Filed as the indicated Exhibit to Form 8-K filed on May 19, 2010 and incorporated herein by reference.
- (45) Filed as the indicated Exhibit to Registration Statement on Form S-3 filed June 10, 2010 and incorporated herein by reference (SEC File No. 333-167448).
- (46) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 9, 2010.
- (47) Filed as the indicated Exhibit to Form 8-K filed on November 4, 2010 and incorporated herein by reference.
- (48) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 5, 2010.
- (49) Filed as the indicated Exhibit to Form 8-K filed on January 20, 2011 and incorporated herein by reference.
- (50) Filed as the indicated Exhibit to Form 8-K filed on February 17, 2011 and incorporated herein by reference.
- (51) Filed as the indicated Exhibit to First Quarter Report on Form 10-Q filed on May 6, 2011 and incorporated herein by reference.
- (52) Filed as the indicated Exhibit to Form 8-K filed on June 6, 2011 and incorporated herein by reference.
- (53) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 5, 2011 and incorporated herein by reference.
- (54) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 4, 2011 and incorporated herein by reference.
- (55) Filed as the indicated exhibit to Definitive Proxy Statement filed on April 7, 2009.
- (56) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 8, 2012 and incorporated herein by reference.
- (57) Filed as the indicated exhibit to First Quarter Report on Form 10-Q filed on May 4, 2012 and incorporated herein by reference.
- (58) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 3, 2012 and incorporated herein by reference.
- (59) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 6, 2012 and incorporated herein by reference.
- (60) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 1, 2013 and incorporated herein by reference.
- (61) Filed as the indicated Exhibit to Annual Report on Form 10-K filed on March 1, 2013 and incorporated herein by reference. Certain data has been redacted subject to a confidential treatment request with the SEC.
- (62) Filed as the indicated exhibit to First Quarter Report on Form 10-Q filed on May 3, 2013 and incorporated herein by reference.
- (63) Filed as the indicated exhibit to Second Quarter Report on Form 10-Q filed on August 2, 2013 and incorporated herein by reference.
- (64) Filed as the indicated exhibit to Third Quarter Report on Form 10-Q filed on November 5, 2013 and incorporated herein by reference.
- (65) Filed herewith.



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

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APR 29 2014

CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITORS' REPORT

To the Members
Emeritus at Camarillo
Seattle, Washington

We have audited the accompanying continuing care reserve report Forms 5-1 through 5-5 (the "Reports") of Emeritus at Camarillo (the "Company"), as of December 31, 2013. The Reports have been prepared by management using the report preparation provisions of California Health and Safety Code Section 1792.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the Reports in accordance with the requirements of California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Reports that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Reports based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of the Company as of December 31, 2013, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

Basis of Accounting

The accompanying Reports were prepared in accordance with the report preparation provisions of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Reports are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Company and for filing with the California Department of Social Services and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hansen Hunter & Co. P.C.

April 21, 2014

**FORM 1-1
RESIDENT POPULATION**



COPY

| <u>Line</u> | Continuing Care Residents | <u>TOTAL</u> |
|-------------|--|--------------|
| [1] | Number at beginning of fiscal year | 93 |
| [2] | Number at end of fiscal year | 103 |
| [3] | Total Lines 1 and 2 | 196 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 98 |

All Residents

| | | |
|------|---|--------|
| [6] | Number at beginning of fiscal year | 138 |
| [7] | Number at end of fiscal year | 147 |
| [8] | Total Lines 6 and 7 | 285 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 142.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 68.77% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | <u>TOTAL</u> |
|---|--------------|
| [1] Total Operating Expenses (including depreciation and debt service-interest only) | 11,807,797 |
| [a] Depreciation | 1,474,764 |
| [b] Debt Service (Interest Only) | 2,066,670 |
| [2] Subtotal (add Line 1a and 1b) | 3,541,434 |
| [3] Subtract Line 2 from Line 1 and enter result. | 8,266,363 |
| [4] Percentage allocated to continuing care residents (Form 1-1, Line 11) | 68.77 |
| [5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 5,684,778 |
| [6] Total Amount Due (multiply Line 5 by .001) | 5,684.78 |

PROVIDER: Emeritus
COMMUNITY: Emeritus at Camarillo

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 98 |
| [2] | Number at end of fiscal year | 88 |
| [3] | Total Lines 1 and 2 | 186 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 93 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 155 |
| [7] | Number at end of fiscal year | 123 |
| [8] | Total Lines 6 and 7 | 278 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 139 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 66.91% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | <u>TOTAL</u> |
|---|--------------|
| [1] Total Operating Expenses (including depreciation and debt service-interest only) | 12,286,470 |
| [a] Depreciation | 150,319 |
| [b] Debt Service (Interest Only) | 3,302,235 |
| [2] Subtotal (add Line 1a and 1b) | 3,452,554 |
| [3] Subtract Line 2 from Line 1 and enter result. | 8,833,916 |
| [4] Percentage allocated to continuing care residents (Form 1-1, Line 11) | 66.91 |
| [5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 5,910,773 |
| [6] Total Amount Due (multiply Line 5 by .001) | 5,910.77 |

PROVIDER: Emeritus
 COMMUNITY: Emeritus at Carlsbad



FORM 1-1
RESIDENT POPULATION

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 70 |
| [2] | Number at end of fiscal year | 113 |
| [3] | Total Lines 1 and 2 | 183 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 91.5 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 145 |
| [7] | Number at end of fiscal year | 149 |
| [8] | Total Lines 6 and 7 | 294 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 147 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 62.24% |

FORM 1-2
ANNUAL PROVIDER FEE

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------|
| [1] | Total Operating Expenses (including depreciation and debt service-interest only) | 12,947,799 |
| [a] | Depreciation | 150,512 |
| [b] | Debt Service (Interest Only) | 4,147,343 |
| [2] | Subtotal (add Line 1a and 1b) | 4,297,855 |
| [3] | Subtract Line 2 from Line 1 and enter result. | 8,649,944 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 62.24 |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 5,383,725 |
| [6] | Total Amount Due (multiply Line 5 by .001) | 5,383.73 |

PROVIDER: Emeritus
COMMUNITY: Emeritus at Carmel Valley

**FORM 1-1
RESIDENT POPULATION**



| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 95 |
| [2] | Number at end of fiscal year | 102 |
| [3] | Total Lines 1 and 2 | 197 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 98.5 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 158 |
| [7] | Number at end of fiscal year | 144 |
| [8] | Total Lines 6 and 7 | 302 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 151 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 65.23% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | <u>TOTAL</u> |
|-------------|--------------|
| [1] | 13,620,386 |
| [a] | 2,000,090 |
| [b] | 2,825,004 |
| [2] | 4,825,094 |
| [3] | 8,795,292 |
| [4] | 65.23 |
| [5] | 5,737,169 |
| [6] | x .001 |
| | 5,737.17 |

PROVIDER: Emeritus

COMMUNITY: Emeritus at Northridge

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**



| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 75 |
| [2] | Number at end of fiscal year | 99 |
| [3] | Total Lines 1 and 2 | 174 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 87 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 150 |
| [7] | Number at end of fiscal year | 149 |
| [8] | Total Lines 6 and 7 | 299 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 149.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 58.19% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | <u>TOTAL</u> |
|---|--------------|
| [1] Total Operating Expenses (including depreciation and debt service-interest only) | 12,449,486 |
| [a] Depreciation | 1,684,748 |
| [b] Debt Service (Interest Only) | 2,301,000 |
| [2] Subtotal (add Line 1a and 1b) | 3,985,748 |
| [3] Subtract Line 2 from Line 1 and enter result. | 8,463,738 |
| [4] Percentage allocated to continuing care residents (Form 1-1, Line 11) | 58.19 |
| [5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 4,925,049 |
| [6] Total Amount Due (multiply Line 5 by .001) | 4,925.05 |

PROVIDER: Emeritus

COMMUNITY: Emeritus at Rancho Mirage

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**

 **COPY**

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 88 |
| [2] | Number at end of fiscal year | 110 |
| [3] | Total Lines 1 and 2 | 198 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 99 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 151 |
| [7] | Number at end of fiscal year | 133 |
| [8] | Total Lines 6 and 7 | 284 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 142 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 69.72% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------|
| [1] | Total Operating Expenses (including depreciation and debt service-interest only) | 11,157,910 |
| [a] | Depreciation | 137,862 |
| [b] | Debt Service (Interest Only) | 3,630,053 |
| [2] | Subtotal (add Line 1a and 1b) | 3,905,777 |
| [3] | Subtract Line 2 from Line 1 and enter result. | 7,252,133 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 69.72 |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 5,056,187 |
| [6] | Total Amount Due (multiply Line 5 by .001) | 5,056.19 |

PROVIDER: Emeritus
COMMUNITY: Emeritus at San Dimas

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**



COPY

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 108 |
| [2] | Number at end of fiscal year | 95 |
| [3] | Total Lines 1 and 2 | 203 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 101.5 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 146 |
| [7] | Number at end of fiscal year | 121 |
| [8] | Total Lines 6 and 7 | 267 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 133.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 76.03% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------|
| [1] | Total Operating Expenses (including depreciation and debt service-interest only) | 13,973,149 |
| [a] | Depreciation | 2,191,362 |
| [b] | Debt Service (Interest Only) | 3,131,166 |
| [2] | Subtotal (add Line 1a and 1b) | 5,322,528 |
| [3] | Subtract Line 2 from Line 1 and enter result. | 8,650,621 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 76.03 |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 6,577,067 |
| [6] | Total Amount Due (multiply Line 5 by .001) | 6,577.07 |

PROVIDER: Emeritus

COMMUNITY: Emeritus at Santa Rosa

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**



| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 84 |
| [2] | Number at end of fiscal year | 90 |
| [3] | Total Lines 1 and 2 | 174 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 87 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 138 |
| [7] | Number at end of fiscal year | 109 |
| [8] | Total Lines 6 and 7 | 247 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 123.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 70.45% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------|
| [1] | Total Operating Expenses (including depreciation and debt service-interest only) | 11,898,198 |
| [a] | Depreciation | 129,051 |
| [b] | Debt Service (Interest Only) | 3,557,873 |
| [2] | Subtotal (add Line 1a and 1b) | 3,686,924 |
| [3] | Subtract Line 2 from Line 1 and enter result. | 8,211,274 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 70.45 |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 5,784,843 |
| [6] | Total Amount Due (multiply Line 5 by .001) | 5,784.84 |

PROVIDER: Emeritus

COMMUNITY: Emeritus at San Juan Capistrano

FORM 1-1 and Form 1-2

**FORM 1-1
RESIDENT POPULATION**



| <u>Line</u> | Continuing Care Residents | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 104 |
| [2] | Number at end of fiscal year | 97 |
| [3] | Total Lines 1 and 2 | 201 |
| [4] | Multiply Line 3 by “.50” and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | 100.5 |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 153 |
| [7] | Number at end of fiscal year | 148 |
| [8] | Total Lines 6 and 7 | 301 |
| [9] | Multiply Line 8 by “.50” and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | 150.5 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 66.78% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------|
| [1] | Total Operating Expenses (including depreciation and debt service-interest only) | 14,124,598 |
| [a] | Depreciation | 2,034,726 |
| [b] | Debt Service (Interest Only) | 2,869,336 |
| [2] | Subtotal (add Line 1a and 1b) | 4,904,062 |
| [3] | Subtract Line 2 from Line 1 and enter result. | 9,220,536 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 66.78 |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) | 6,157,474 |
| [6] | Total Amount Due (multiply Line 5 by .001) | 6,157.47 |

PROVIDER: **Emeritus**
 COMMUNITY: Emeritus at Yorba Linda

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$2,066,670 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$2,066,670 |

PROVIDER: EMERITUS AT CAMARILLO

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$3,302,235 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$3,302,235 |

PROVIDER: EMERITUS AT CARLSBAD

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$4,147,343 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$4,147,343 |

PROVIDER: EMERITUS AT CARMEL VALLEY

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$2,825,004 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$2,825,004 |

PROVIDER: EMERITUS AT NORTHRIDGE

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | | TOTAL |
|-------------|--|--------------------|
| 1 | Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 | Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 | Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$2,301,000 |
| 4 | TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$2,301,000 |

PROVIDER: EMERITUS AT RANCHO MIRAGE

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$3,630,053 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$3,630,053 |

PROVIDER: EMERITUS AT SAN DIMAS

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$3,557,873 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$3,557,873 |

PROVIDER: EMERITUS AT SAN JUAN CAPISTRANO

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$3,131,166 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$3,131,166 |

PROVIDER: EMERITUS AT SANTA ROSA

**FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | TOTAL |
|--|--------------------|
| 1 Total from Form 5-1 bottom of Column (e) | \$0 |
| 2 Total from Form 5-2 bottom of Column (e) | \$0 |
| 3 Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | \$2,869,336 |
| 4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | \$2,869,336 |

PROVIDER: EMERITUS AT YORBA LINDA

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|--|--|---------------------|
| 1 | Total operating expenses from financial statements | <u>\$11,807,797</u> |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | <u>\$2,066,670</u> |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | <u>\$0</u> |
| c. | Depreciation | <u>\$1,468,717</u> |
| d. | Amortization | <u>\$6,047</u> |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | <u>\$3,675,689</u> |
| f. | Extraordinary expenses approved by the Department | <u>\$0</u> |
| 3 | Total Deductions | <u>\$7,217,123</u> |
| 4 | Net Operating Expenses | <u>\$4,590,674</u> |
| 5 | Divide Line 4 by 365 and enter the result. | <u>\$12,577</u> |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | <u>\$943,275</u> |
| PROVIDER: EMERITUS AT CAMARILLO | | |
| COMMUNITY: | | |

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 3,675,689 |
| Revenues received from residents | <u>8,094,048</u> |
| Cash received from residents | \$ <u>11,769,737</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|------------------|
| 1 | Total operating expenses from financial statements | \$12,286,470 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$3,302,235 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$143,865 |
| d. | Amortization | \$6,454 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$4,061,509 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$7,514,063 |
| 4 | Net Operating Expenses | \$4,772,407 |
| 5 | Divide Line 4 by 365 and enter the result. | \$13,075 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$980,625 |

PROVIDER: EMERITUS AT CARLSBAD

COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 4,061,509 |
| Revenues received from residents | <u>8,212,618</u> |
| Cash received from residents | <u>\$ 12,274,127</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|--|--|--------------|
| 1 | Total operating expenses from financial statements | \$12,947,799 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$4,147,343 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$143,090 |
| d. | Amortization | \$7,422 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$4,663,930 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$8,961,785 |
| 4 | Net Operating Expenses | \$3,986,014 |
| 5 | Divide Line 4 by 365 and enter the result. | \$10,921 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$819,075 |
| PROVIDER: EMERITUS AT CARMEL VALLEY | | |
| COMMUNITY: | | |

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 4,663,930 |
| Revenues received from residents | <u>7,687,581</u> |
| Cash received from residents | <u>\$ 12,351,511</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|--|--|---------------------|
| 1 | Total operating expenses from financial statements | <u>\$11,157,910</u> |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | <u>\$3,630,053</u> |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | <u>\$0</u> |
| c. | Depreciation | <u>\$130,771</u> |
| d. | Amortization | <u>\$7,091</u> |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | <u>\$3,199,857</u> |
| f. | Extraordinary expenses approved by the Department | <u>\$0</u> |
| 3 | Total Deductions | <u>\$6,967,772</u> |
| 4 | Net Operating Expenses | <u>\$4,190,138</u> |
| 5 | Divide Line 4 by 365 and enter the result. | <u>\$11,480</u> |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | <u>\$861,000</u> |
| PROVIDER: EMERITUS AT SAN DIMAS | | |
| COMMUNITY: | | |

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|------------------|--|
| | Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) |
| \$ 3,199,857 | |
| <u>7,367,704</u> | Revenues received from residents |
| \$ 10,567,561 | Cash received from residents |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|--------------|
| 1 | Total operating expenses from financial statements | \$11,898,198 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$3,557,873 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$121,961 |
| d. | Amortization | \$7,090 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$3,593,462 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$7,280,386 |
| 4 | Net Operating Expenses | \$4,617,812 |
| 5 | Divide Line 4 by 365 and enter the result. | \$12,652 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$948,900 |

PROVIDER: EMERITUS AT SAN JUAN CAPISTRANO
COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 3,593,462 |
| Revenues received from residents | <u>8,567,155</u> |
| Cash received from residents | \$ <u>12,160,617</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|---------------------|
| 1 | Total operating expenses from financial statements | <u>\$13,973,149</u> |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | <u>\$3,131,166</u> |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | <u>\$0</u> |
| c. | Depreciation | <u>\$2,182,051</u> |
| d. | Amortization | <u>\$9,311</u> |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | <u>\$3,189,417</u> |
| f. | Extraordinary expenses approved by the Department | <u>\$0</u> |
| 3 | Total Deductions | <u>\$8,511,945</u> |
| 4 | Net Operating Expenses | <u>\$5,461,204</u> |
| 5 | Divide Line 4 by 365 and enter the result. | <u>\$14,962</u> |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | <u>\$1,122,150</u> |

PROVIDER: EMERITUS AT SANTA ROSA

COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 3,189,417 |
| Revenues received from residents | <u>10,116,452</u> |
| Cash received from residents | \$ <u>13,305,869</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|--------------|
| 1 | Total operating expenses from financial statements | \$13,620,386 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$2,825,004 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$1,991,591 |
| d. | Amortization | \$8,499 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$4,889,422 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$9,714,516 |
| 4 | Net Operating Expenses | \$3,905,870 |
| 5 | Divide Line 4 by 365 and enter the result. | \$10,701 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$802,575 |

PROVIDER: EMERITUS AT NORTHRIDGE

COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|------------------|--|
| | Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) |
| \$ 4,889,422 | Revenues received from residents |
| <u>9,172,765</u> | Cash received from residents |
| \$ 14,062,187 | |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 1 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|--------------|
| 1 | Total operating expenses from financial statements | \$12,449,486 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$2,301,000 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$1,677,687 |
| d. | Amortization | \$7,061 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$4,903,063 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$8,888,811 |
| 4 | Net Operating Expenses | \$3,560,675 |
| 5 | Divide Line 4 by 365 and enter the result. | \$9,755 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$731,625 |

PROVIDER: EMERITUS AT RANCHO MIRAGE
COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 4,903,063 |
| Revenues received from residents | <u>6,823,946</u> |
| Cash received from residents | \$ <u>11,727,009</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | Amounts | TOTAL |
|------|--|--------------|
| 1 | Total operating expenses from financial statements | \$14,124,598 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$2,869,336 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$2,025,902 |
| d. | Amortization | \$8,824 |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | \$4,225,935 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$9,129,997 |
| 4 | Net Operating Expenses | \$4,994,601 |
| 5 | Divide Line 4 by 365 and enter the result. | \$13,684 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$1,026,300 |

PROVIDER: EMERITUS AT YORBA LINDA
COMMUNITY:

FORM 5-4 CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 4,225,935 |
| Revenues received from residents | <u>8,495,122</u> |
| Cash received from residents | \$ <u>12,721,057</u> |

Cash received from residents is calculated by converting GAAP basis revenue to the cash basis. Cash received from residents is allocated between revenues received from residents and revenues received from persons who did not have a continuing care contract based on the weighted average determined on line 11 of Form 1-1.

Additional Documentation

Community Financial Statements

2013 vs 2012 Level of Care Rates

Reconciliations for Parts 1-2, 5-3, 5-4, and 5-5

Emeritus Corporation CCRC Communities

Combined Statement of Cash Flows (By Location)
For the Year Ended December 31, 2013
(in thousands)

| | Emeritus at Camarillo | Emeritus at Carlsbad | Emeritus at Carmel Valley | Emeritus at Northridge | Emeritus at Mirage | Emeritus at San Dimas | Emeritus at San Juan Capistrano | Emeritus at Santa Rosa | Emeritus at Yorba Linda | Total For All Nine Communities |
|--|--------------------------|-------------------------|------------------------------|---------------------------|-----------------------|--------------------------|---------------------------------------|---------------------------|----------------------------|--------------------------------------|
| Cash flows from operating activities: | | | | | | | | | | |
| Net income (loss) | (51) | (111) | (432) | 484 | (1,392) | (907) | (346) | (803) | (1,666) | (5,224) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | | | | | | |
| Depreciation and amortization | 1,475 | 150 | 151 | 2,000 | 1,685 | 138 | 129 | 2,191 | 2,035 | 9,953 |
| Allowance for doubtful accounts | 85 | 184 | 119 | 101 | 94 | 59 | 192 | 77 | 28 | 938 |
| Changes in assets and liabilities: | | | | | | | | | | |
| Accounts receivable | (82) | (63) | (243) | (137) | 617 | 280 | 472 | 51 | 265 | 1,160 |
| Prepaid expense & Inventory | (181) | (160) | (58) | (47) | (162) | (177) | (58) | (19) | (71) | (933) |
| Other assets | 0 | (6) | (8) | 0 | 0 | (7) | (6) | 5 | 0 | (21) |
| Accounts payable and accrued liabilities | (775) | 185 | 726 | (2,378) | (699) | 746 | (57) | (1,289) | (444) | (3,987) |
| Net cash provided by (used in) operating activities | 470 | 179 | 256 | 22 | 143 | 131 | 325 | 213 | 147 | 1,886 |
| Disposition of property, plant and equipment | (35) | (117) | (116) | (52) | (44) | (88) | (310) | (36) | (161) | (958) |
| Acquisition of property, plant and equipment | (35) | (117) | (116) | (52) | (44) | (88) | (310) | (36) | (161) | (958) |
| Net cash provided by (used in) investing activities | (435) | 0 | 7 | (7) | (6) | 4 | 7 | (7) | (7) | (444) |
| Cash flows from financing activities: | | | | | | | | | | |
| Principal payments of long-term debt | (435) | 0 | 7 | (7) | (6) | 4 | 7 | (7) | (7) | (444) |
| Net cash provided by (used in) financing activities | 0 | 63 | 147 | (36) | 93 | 46 | 22 | 170 | (21) | 484 |
| Net increase (decrease) in cash | 0 | 36 | (15) | 68 | 34 | (25) | (9) | (19) | 11 | 80 |
| Cash at beginning of month | 0 | 98 | 132 | 32 | 127 | 22 | 13 | 151 | (11) | 564 |
| Cash at end of month | 0 | 98 | 132 | 32 | 127 | 22 | 13 | 151 | (11) | 564 |

Emeritus Corporation CCRC Communities

Combined Balance Sheets (By Location)

As of December 31, 2013

(in thousands)

| | Emeritus at Camarillo | Emeritus at Carlsbad | Emeritus at Carmel Valley | Emeritus at Northridge | Emeritus at Rancho Mirage | Emeritus at San Dimas | Emeritus at San Juan Capistrano | Emeritus at Santa Rosa | Emeritus at Yorba Linda | Total For All Nine Communities |
|--|--------------------------|-------------------------|------------------------------|---------------------------|---------------------------------|--------------------------|---------------------------------------|---------------------------|----------------------------|--------------------------------------|
| Assets | | | | | | | | | | |
| Cash and cash equivalents | 98 | 132 | 32 | 127 | 22 | 13 | 151 | 689 | 564 | |
| Trade accounts receivable, net of allowance | 821 | 910 | 735 | 480 | 411 | 587 | 625 | 689 | 6,181 | |
| Other receivables | 21 | 8 | (3) | 13 | 13 | 32 | 10 | 2 | 112 | |
| Prepaid insurance expense | 282 | 304 | 295 | 286 | 289 | 305 | 333 | 318 | 2,705 | |
| Other prepaid expenses and current assets | 143 | 139 | 36 | 42 | 140 | 41 | 36 | 41 | 776 | |
| Property and equipment, net of accumulated depreciation | 15,963 | 446 | 524 | 22,291 | 18,568 | 670 | 24,298 | 22,963 | 106,082 | |
| Restricted deposits | 221 | 278 | | | 243 | 238 | | | 980 | |
| Other intangible assets, net of accumulated amortization | 45 | 32 | 64 | 53 | 35 | 35 | 70 | 66 | 437 | |
| Other assets | 73 | 10 | 38 | 22 | 33 | 33 | | 33 | 210 | |
| Total assets | 17,451 | 2,070 | 2,219 | 23,512 | 19,690 | 1,558 | 1,921 | 25,524 | 24,102 | 118,046 |
| Liabilities | | | | | | | | | | |
| Current portion of capital lease obligations | 594 | 3 | 699 | 594 | 2 | 3 | 841 | 737 | 3,472 | |
| Trade accounts payable | 79 | 91 | 50 | 230 | 48 | 55 | 83 | 79 | 811 | |
| Accrued employee compensation and benefits | 381 | 263 | 300 | 383 | 260 | 250 | 404 | 427 | 3,026 | |
| Accrued interest | | | | | | | | | 0 | |
| Accrued real estate taxes | | | | | | | | | 0 | |
| Accrued professional and general liability | 77 | 77 | 77 | 77 | 77 | 78 | 78 | 77 | 697 | |
| Other accrued expenses | 211 | 256 | 363 | 210 | 129 | 205 | 170 | 229 | 1,970 | |
| Deferred revenue | | | | | | | | | 0 | |
| Unearned rental income | 276 | 190 | 182 | 341 | 121 | 157 | 205 | 218 | 1,847 | |
| Capital lease obligations, less current portion | 20,979 | 4 | 26,733 | 22,911 | 2 | 4 | 29,509 | 27,982 | 128,125 | |
| Deferred rent payable | | 2,427 | 3,024 | 2,658 | 2,586 | | | | 10,695 | |
| Total liabilities | 22,597 | 3,308 | 4,044 | 28,494 | 24,488 | 3,333 | 3,339 | 31,289 | 29,749 | 150,641 |
| Equity | | | | | | | | | | |
| Accumulated deficit | (5,146) | (1,238) | (1,826) | (4,982) | (4,798) | (1,775) | (1,418) | (5,765) | (5,647) | (32,595) |
| Total equity/(deficit) | (5,146) | (1,238) | (1,826) | (4,982) | (4,798) | (1,775) | (1,418) | (5,765) | (5,647) | (32,595) |
| Total liabilities and equity | 17,451 | 2,070 | 2,219 | 23,512 | 19,690 | 1,558 | 1,921 | 25,524 | 24,102 | 118,046 |

Emeritus Corporation CCRC Communities

Combined Statements of Operations (By Location)
For the Year Ended December 31, 2013
(in thousands)

| | Emeritus at Camarillo | | Emeritus at Carlsbad | | Emeritus at Carmel Valley | | Emeritus at Northridge | | Emeritus at Rancho Mirage | | Emeritus at San Dimas | | Emeritus at San Juan Capistrano | | Emeritus at Santa Rosa | | Emeritus at Yorba Linda | | Total For All Nine Communities | | | |
|---|-----------------------|--------------|----------------------|------------|---------------------------|--------------|------------------------|--------------|---------------------------|----------------|-----------------------|--|---------------------------------|--|------------------------|--|-------------------------|--|--------------------------------|--|--|--|
| | | | | | | | | | | | | | | | | | | | | | | |
| Revenue: | | | | | | | | | | | | | | | | | | | | | | |
| Resident services fees | 11,757 | 12,175 | 12,515 | 14,104 | 11,058 | 10,251 | 11,551 | 13,170 | 12,458 | 109,038 | | | | | | | | | | | | |
| Total operating revenues ¹ | 11,757 | 12,175 | 12,515 | 14,104 | 11,058 | 10,251 | 11,551 | 13,170 | 12,458 | 109,038 | | | | | | | | | | | | |
| Expenses: | | | | | | | | | | | | | | | | | | | | | | |
| Skilled nursing | 3,195 | 3,850 | 3,130 | 3,628 | 3,681 | 2,526 | 3,531 | 3,259 | 4,071 | 30,870 | | | | | | | | | | | | |
| Memory care | 348 | 333 | 409 | 307 | 326 | 326 | 266 | 426 | 340 | 3,083 | | | | | | | | | | | | |
| Assisted living | 583 | 617 | 625 | 609 | 511 | 672 | 498 | 930 | 754 | 5,799 | | | | | | | | | | | | |
| Activities | 119 | 100 | 165 | 97 | 72 | 66 | 88 | 99 | 107 | 914 | | | | | | | | | | | | |
| Administration | 668 | 684 | 604 | 556 | 553 | 537 | 658 | 551 | 455 | 5,266 | | | | | | | | | | | | |
| Insurance | 222 | 208 | 206 | 234 | 279 | 203 | 213 | 252 | 230 | 2,046 | | | | | | | | | | | | |
| Utilities | 278 | 299 | 294 | 395 | 352 | 277 | 321 | 408 | 273 | 2,896 | | | | | | | | | | | | |
| Payroll and benefits | 1,152 | 1,220 | 1,290 | 1,160 | 1,193 | 1,138 | 1,105 | 1,397 | 1,388 | 11,043 | | | | | | | | | | | | |
| Taxes, licenses, and fees | 161 | 293 | 359 | 685 | 251 | 285 | 204 | 263 | 266 | 2,767 | | | | | | | | | | | | |
| Ancillaries | 104 | 25 | 152 | 18 | 12 | 30 | 28 | 39 | 14 | 421 | | | | | | | | | | | | |
| Dining | 785 | 760 | 770 | 810 | 761 | 710 | 696 | 785 | 811 | 6,888 | | | | | | | | | | | | |
| Housekeeping | 234 | 165 | 184 | 220 | 199 | 212 | 247 | 223 | 260 | 1,943 | | | | | | | | | | | | |
| Maintenance | 424 | 288 | 427 | 307 | 318 | 406 | 332 | 246 | 376 | 3,123 | | | | | | | | | | | | |
| Marketing | 186 | 194 | 281 | 188 | 199 | 220 | 232 | 240 | 200 | 1,940 | | | | | | | | | | | | |
| Depreciation and amortization | 1,475 | 150 | 151 | 2,000 | 1,685 | 138 | 129 | 2,191 | 2,035 | 9,953 | | | | | | | | | | | | |
| Community lease expense (operating and straight-line) | | 3,100 | 3,905 | | | 3,416 | | | | 13,774 | | | | | | | | | | | | |
| Total operating expenses | 9,934 | 12,287 | 12,953 | 11,212 | 10,393 | 11,160 | 11,900 | 11,307 | 11,579 | 102,726 | | | | | | | | | | | | |
| Operating Income/(loss) | 1,823 | (112) | (438) | 2,892 | 665 | (909) | (349) | 1,863 | 879 | 6,313 | | | | | | | | | | | | |
| Other income (expense): | | | | | | | | | | | | | | | | | | | | | | |
| Interest income | | | 1 | 1 | (1) | | 1 | (1) | 1 | 3 | | | | | | | | | | | | |
| Capital lease interest expense - facilities and equipment | (1,875) | | (1) | (2,417) | (2,060) | (1) | (1) | (2,668) | (2,548) | (11,568) | | | | | | | | | | | | |
| Other | 1 | 1 | 5 | 9 | 4 | 2 | 3 | 2 | 2 | 28 | | | | | | | | | | | | |
| Net other expense | (1,874) | 1 | 6 | (2,408) | (2,056) | 2 | 3 | (2,666) | (2,545) | (11,537) | | | | | | | | | | | | |
| (Loss)/Income from Operations | (51) | (111) | (432) | 484 | (1,392) | (907) | (346) | (803) | (1,666) | (5,224) | | | | | | | | | | | | |

Communities do not charge entrance fees¹

Emeritus Corporation CCRC Communities
Percentage Change Between 2013 Level of Care Rates vs. 2012 Rates

| | Carlsbad | | | Carmel Valley | | | San Juan | | | San Dimas | | | Northridge | | |
|------------------------|----------|---------|----------|---------------|---------|----------|----------|---------|----------|-----------|---------|----------|------------|---------|----------|
| | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change |
| Assisted Living | | | | | | | | | | | | | | | |
| Level of Care 1 | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% |
| Level of Care 2 | 950 | \$975 | 2.6% | 950 | \$975 | 2.6% | 950 | \$975 | 2.6% | 950 | \$975 | 2.6% | 950 | \$975 | 2.6% |
| Level of Care 3 | 1,350 | \$1,475 | 9.3% | 1,350 | \$1,475 | 9.3% | 1,350 | \$1,475 | 9.3% | 1,350 | \$1,375 | 1.9% | 1,350 | \$1,475 | 9.3% |
| Level of Care 4 | 1,750 | \$1,775 | 1.4% | 1,750 | \$1,775 | 1.4% | 1,750 | \$1,875 | 7.1% | 1,750 | \$1,775 | 1.4% | 1,750 | \$1,775 | 1.4% |
| Level of Care 5 | 2,150 | \$2,175 | 1.2% | 2,150 | \$2,175 | 1.2% | 2,150 | \$2,175 | 1.2% | 2,150 | \$2,175 | 1.2% | 2,350 | \$2,275 | -3.2% |
| Level of Care 6 | 2,850 | \$2,875 | 0.9% | 2,850 | \$2,875 | 0.9% | 2,850 | \$2,875 | 0.9% | 2,850 | \$2,875 | 0.9% | 2,850 | \$2,875 | 0.9% |
| Memory Care | | | | | | | | | | | | | | | |
| Level of Care 1 | 1,186 | \$1,211 | 2.1% | 1,186 | \$1,211 | 2.1% | 1,186 | \$1,211 | 2.1% | 1,186 | \$1,211 | 2.1% | 1,216 | \$1,241 | 2.1% |
| Level of Care 2 | 1,673 | \$1,798 | 7.5% | 1,673 | \$1,798 | 7.5% | 1,673 | \$1,698 | 1.5% | 1,673 | \$1,798 | 7.5% | 1,764 | \$1,789 | 1.4% |
| Level of Care 3 | 2,200 | \$2,225 | 1.1% | 2,200 | \$2,225 | 1.1% | 2,200 | \$2,225 | 1.1% | 2,200 | \$2,225 | 1.1% | 2,242 | \$2,336 | 4.2% |
| Level of Care 4 | 2,800 | \$2,825 | 0.9% | 2,800 | \$2,825 | 0.9% | 2,800 | \$2,825 | 0.9% | 2,800 | \$2,825 | 0.9% | 2,615 | \$2,640 | 1.0% |

| | Rancho Mirage | | | Santa Rosa | | | Yorba Linda | | | Camarillo | | | Rate Summary | | |
|------------------------|---------------|---------|----------|------------|---------|----------|-------------|---------|----------|-----------|---------|----------|--------------|-------|----------|
| | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change | 2012 | 2013 | % Change |
| Assisted Living | | | | | | | | | | | | | | | |
| Level of Care 1 | 450 | \$575 | 27.8% | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% | 450 | \$475 | 5.6% | 450 | 486 | 8.0% |
| Level of Care 2 | 950 | \$975 | 2.6% | 973 | \$975 | 0.2% | 950 | \$975 | 2.6% | 950 | \$975 | 2.6% | 953 | 975 | 2.4% |
| Level of Care 3 | 1,350 | \$1,475 | 9.3% | 1,350 | \$1,475 | 9.3% | 1,428 | \$1,475 | 3.3% | 1,350 | \$1,475 | 9.3% | 1,359 | 1,464 | 7.7% |
| Level of Care 4 | 1,750 | \$1,775 | 1.4% | 1,750 | \$1,875 | 7.1% | 1,429 | \$1,775 | 24.2% | 1,750 | \$1,875 | 7.1% | 1,714 | 1,808 | 5.5% |
| Level of Care 5 | 2,350 | \$2,275 | -3.2% | 2,189 | \$2,189 | 0.0% | 2,150 | \$2,175 | 1.2% | 2,150 | \$2,275 | 5.8% | 2,199 | 2,210 | 0.5% |
| Level of Care 6 | | | | \$2,850 | n/a | | | | | 2,855 | 2,875 | 0.7% | | | |
| Memory Care | | | | | | | | | | | | | | | |
| Level of Care 1 | 1,155 | \$1,311 | 13.5% | 1,155 | \$1,311 | 13.5% | 1,186 | \$1,311 | 10.5% | 1,186 | \$1,311 | 10.5% | 1,182 | 1,259 | 6.5% |
| Level of Care 2 | 1,763 | \$1,798 | 2.0% | 1,763 | \$1,888 | 7.1% | 2,008 | \$1,798 | -10.5% | 1,673 | \$1,698 | 1.5% | 1,740 | 1,785 | 2.6% |
| Level of Care 3 | 2,371 | \$2,371 | 0.0% | 2,371 | \$2,396 | 1.1% | 2,200 | \$2,225 | 1.1% | 2,200 | \$2,325 | 5.7% | 2,243 | 2,284 | 1.8% |
| Level of Care 4 | | | | \$2,925 | n/a | | 2,800 | \$2,925 | 4.5% | 2,800 | \$2,925 | 4.5% | 2,769 | 2,811 | 1.5% |

Form 1-2 Reconciliation

| | Camarillo | Northridge | Rancho Miraj |
|--|-------------------|-------------------|------------------|
| Operating expenses presented on Combined Statement of Operations (without capital lease exp & other) | 9,933,605 | 11,212,197 | 10,393,30 |
| Plus capital lease interest expense | 1,875,315 | 2,416,946 | 2,059,90 |
| Plus other income/(expenses) | (1,123) | (8,757) | (3,7 |
| Total operating expenses presented on line 1 | 11,807,797 | 13,620,386 | 12,449,48 |
| Depreciation presented on Form 5-4 line 2 c | 1,468,717 | 1,991,591 | 1,677,68 |
| Amortization presented on Form 5-4 line 2 d | 6,047 | 8,499 | 7,00 |
| Depreciation and amortization presented on Form 1-2 line 1 (a) | 1,474,764 | 2,000,090 | 1,684,74 |
| Total capital lease interest expense shown on the Combined Statement of Operations | 1,875,315 | 2,416,946 | 2,059,90 |
| Additional GAAP adjustments required to appropriately present the expense as a capital lease | 191,355 | 408,058 | 241,00 |
| Debt Service - Interest Only presented on line 1 (b) (actual lease payments during FY 2013) | 2,066,670 | 2,825,004 | 2,301,00 |
| Total community lease expense shown on the Combined Statement of Operations | 3,099,858 | 3,904,842 | 3,416,21 |
| Less straight-line rent required for GAAP | 202,378 | 242,501 | 213,80 |
| Debt Service - Interest Only presented on line 1 (b) (actual lease payments during FY 2013) | 3,302,236 | 4,147,343 | 3,630,01 |

Form 5-3 Reconciliation

| | Camarillo | Northridge | Rancho Miraj |
|---|------------------|------------------|-----------------|
| Total capital lease interest expense shown on the Combined Statement of Operations | 1,875,315 | 2,416,946 | 2,059,90 |
| Less GAAP adjustments required to appropriately present the expense as a capital lease | 191,355 | 408,058 | 241,00 |
| Facility leasehold or rental payment paid by provider on line 3 (actual lease payments during FY 2013) | 2,066,670 | 2,825,004 | 2,301,00 |
| Total community lease expense shown on the Combined Statement of Operations | 3,099,858 | 3,904,842 | 3,416,21 |
| Less straight-line rent required for GAAP | 202,378 | 242,501 | 213,80 |
| Facility leasehold or rental payment paid by provider on line 3 (actual lease payments during FY 2013) | 3,302,236 | 4,147,343 | 3,630,01 |

Form 5-4 Reconciliation

| | Camarillo | Northridge | Rancho Miraj |
|--|-------------------|-------------------|------------------|
| Operating expenses presented on Combined Statement of Operations | 9,933,605 | 11,212,197 | 10,393,30 |
| Plus capital lease interest expense | 1,875,315 | 2,416,946 | 2,059,90 |
| Plus other income/(expenses) | (1,123) | (8,757) | (3,7 |
| Total operating expenses presented on line 1 | 11,807,797 | 13,620,386 | 12,449,41 |

Total capital lease interest expense shown on the Combined Statement of Operations
 Less GAAP adjustments required to appropriately present the expense as a capital lease
Interest paid on long-term debt presented on line 2 a (actual lease payments during FY 2013)

| Camarillo | Northridge | Rancho Miraj |
|------------------|------------------|-----------------|
| 1,875,315 | 2,416,946 | 2,059,91 |
| 191,355 | 408,058 | 241,00 |
| 2,066,670 | 2,825,004 | 2,301,00 |

Total community lease expense shown on the Combined Statement of Operations
 Less straight-line rent required for GAAP
Interest paid on long-term debt presented on line 2 a (actual lease payments during FY 2013)

| Carlsbad | Carmel Valley | San Dimas |
|------------------|------------------|-----------------|
| 3,099,858 | 3,904,842 | 3,416,20 |
| 202,378 | 242,501 | 213,80 |
| 3,302,236 | 4,147,343 | 3,630,00 |

Depreciation on line 2 c
Amortization on line 2 d
 Depreciation and amortization total shown on the Combined Statement of Operations

| Camarillo | Northridge | Rancho Miraj |
|------------------|------------------|-----------------|
| 1,468,717 | 1,991,591 | 1,677,68 |
| 6,047 | 8,499 | 7,00 |
| 1,474,764 | 2,000,090 | 1,684,74 |

Total revenue shown on the Combined Statement of Operations
 Plus resident accounts receivable balance at 12/31/12
 Less resident accounts receivable balance at 12/31/13
Total cash received from residents (Form 5-4 Calculation of Net Operating Expenses Recon. Of line 2e)
 Percentage of residents who did not have a continuing care contract (calculated from line 11 of Form 1-1)
Revenues received for services to persons who did not have a continuing care contract (Form 5-4 line 2e)

| Camarillo | Northridge | Rancho Miraj |
|-------------------|-------------------|------------------|
| 11,756,606 | 14,103,790 | 11,057,91 |
| 935,756 | 693,403 | 1,148,93 |
| (922,625) | (735,005) | (479,84 |
| 11,769,737 | 14,062,188 | 11,727,01 |
| 31.23% | 34.77% | 41.80 |
| 3,675,689 | 4,889,423 | 4,903,00 |

Form 5-5 Reconciliation

Total Emeritus Corporation Cash at 12/31/13
 Divided equally by the total number of nine California facilities
 Total Cash Reserves
 Less debt service reserve amount (facility rental payment presented on Form 5-3)
Operating reserve presented on line 4

| Camarillo | Northridge | Rancho Miraj |
|------------------|------------------|-----------------|
| 76,672,000 | 76,672,000 | 76,672,00 |
| 9 | 9 | |
| 8,519,111 | 8,519,111 | 8,519,11 |
| 2,066,670 | 2,825,004 | 2,301,00 |
| 6,452,441 | 5,694,107 | 6,218,11 |

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT CAMARILLO

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$2,066,670</u> |
| [2] Operating Expense Reserve Amount | <u>\$943,275</u> |
| [3] Total Liquid Reserve Amount: | <u>\$3,009,945</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$2,066,670</u> | <u>\$6,452,441</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| <hr/> | | |
| <i>(describe qualifying asset)</i> | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$2,066,670</u> | [12] <u>\$6,452,441</u> |
| Reserve Obligation Amount: | [13] <u>\$2,066,670</u> | [14] <u>\$943,275</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$5,509,166</u> |

Signature: _____



(Authorized Representative)

Date: _____

4/24/14

(Title)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Camarillo should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Camarillo has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Camarillo's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT CARLSBAD

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$3,302,235</u> |
| [2] Operating Expense Reserve Amount | <u>\$980,625</u> |
| [3] Total Liquid Reserve Amount: | <u>\$4,282,860</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> <u>(market value at end of quarter)</u> | |
|---|--|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$3,302,235</u> | <u>\$5,216,876</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$3,302,235</u> | [12] <u>\$5,216,876</u> |
| Reserve Obligation Amount: | [13] <u>\$3,302,235</u> | [14] <u>\$980,625</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$4,236,251</u> |

Signature:



(Authorized Representative)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

Date:

4/24/14

(Title)

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Carlsbad should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Carlsbad has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Carlsbad's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT CARMEL VALLEY

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$4,147,343</u> |
| [2] Operating Expense Reserve Amount | <u>\$819,075</u> |
| [3] Total Liquid Reserve Amount: | <u>\$4,966,418</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$4,147,343</u> | <u>\$4,371,768</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$4,147,343</u> | [12] <u>\$4,371,768</u> |
| Reserve Obligation Amount: | [13] <u>\$4,147,343</u> | [14] <u>\$819,075</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$3,552,693</u> |

Signature:



(Authorized Representative)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

Date:

4/24/14

(Title)

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Carmel Valley should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Carmel Valley has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Carmel Valley's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT NORTHRIDGE

Fiscal Year Ended: DECEMBER 31, 2013


We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$2,825,004</u> |
| [2] Operating Expense Reserve Amount | <u>\$802,575</u> |
| [3] Total Liquid Reserve Amount: | <u>\$3,627,579</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> <u>(market value at end of quarter)</u> | |
|---|--|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$2,825,004</u> | <u>\$5,694,107</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$2,825,004</u> | [12] <u>\$5,694,107</u> |
| Reserve Obligation Amount: | [13] <u>\$2,825,004</u> | [14] <u>\$802,575</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$4,891,532</u> |

Signature: 
 (Authorized Representative) Jim L. Hanson
 Senior VP & Controller
 Emeritus Corporation
 (Title)

Date: 4/24/14

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Northridge should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Northridge has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Northridge's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT RANCHO MIRAGE

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$2,301,000</u> |
| [2] Operating Expense Reserve Amount | <u>\$731,625</u> |
| [3] Total Liquid Reserve Amount: | <u>\$3,032,625</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> <u>(market value at end of quarter)</u> | |
|---|--|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$2,301,000</u> | <u>\$6,218,111</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| <hr/> | | |
| <i>(describe qualifying asset)</i> | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$2,301,000</u> | [12] <u>\$6,218,111</u> |
| Reserve Obligation Amount: | [13] <u>\$2,301,000</u> | [14] <u>\$731,625</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$5,486,486</u> |

Signature:



(Authorized Representative)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

(Title)

Date:

1/24/14

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Rancho Mirage should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Rancho Mirage has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Rancho Mirage's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT SAN DIMAS
 Fiscal Year Ended: DECEMBER 31, 2013

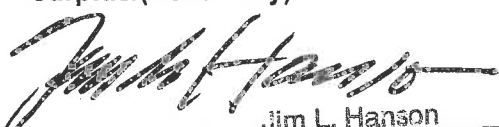
We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$3,630,053</u> |
| [2] Operating Expense-Reserve Amount | <u>\$861,000</u> |
| [3] Total Liquid Reserve Amount: | <u>\$4,491,053</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | \$3,630,053 | \$4,889,058 |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$3,630,053</u> | [12] <u>\$4,889,058</u> |
| Reserve Obligation Amount: | [13] <u>\$3,630,053</u> | [14] <u>\$861,000</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$4,028,058</u> |

Signature: 
 (Authorized Representative) Jim L. Hanson
 Senior VP & Controller
 Emeritus Corporation

Date: 4/24/14

(Title)

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at San Dimas should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at San Dimas has computed its liquid reserve requirement as of December 31, 2013, Emeritus at San Dimas' most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT SAN JUAN CAPISTRANO

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$3,557,873</u> |
| [2] Operating Expense Reserve Amount | <u>\$948,900</u> |
| [3] Total Liquid Reserve Amount: | <u>\$4,506,773</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$3,557,873</u> | <u>\$4,961,238</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$3,557,873</u> | [12] <u>\$4,961,238</u> |
| Reserve Obligation Amount: | [13] <u>\$3,557,873</u> | [14] <u>\$948,900</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$4,012,338</u> |

Signature: _____



(Authorized Representative)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

Date: _____

(Title)

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at San Juan Capistrano should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at San Juan Capistrano has computed its liquid reserve requirement as of December 31, 2013, Emeritus at San Juan Capistrano's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT SANTA ROSA
 Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|--------------------|
| [1] Debt Service Reserve Amount | \$3,131,166 |
| [2] Operating Expense Reserve Amount | \$1,122,150 |
| [3] Total Liquid Reserve Amount: | \$4,253,316 |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | \$3,131,166 | \$5,387,945 |
| [5] Investment Securities | \$0 | \$0 |
| [6] Equity Securities | \$0 | \$0 |
| [7] Unused/Available Lines of Credit | \$0 | \$0 |
| [8] Unused/Available Letters of Credit | \$0 | \$0 |
| [9] Debt Service Reserve | \$0 | \$0 |
| [10] Other: | \$0 | \$0 |
| <hr/> | | |
| <hr/> | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] \$3,131,166 | [12] \$5,387,945 |
| Reserve Obligation Amount: | [13] \$3,131,166 | [14] \$1,122,150 |
| Surplus/(Deficiency): | [15] \$0 | [16] \$4,265,795 |

Signature:



(Authorized Representative) Jim L. Hanson
 Senior VP & Controller
 Emeritus Corporation

(Title)

Date:

4/24/14

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Santa Rosa should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Santa Rosa has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Santa Rosa's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: EMERITUS AT YORBA LINDA

Fiscal Year Ended: DECEMBER 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended DECEMBER 31, 2013 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year December 31, 2013, are as follows:

| | <u>Amount</u> |
|---|---------------------------|
| [1] Debt Service Reserve Amount | <u>\$2,869,336</u> |
| [2] Operating Expense Reserve Amount | <u>\$1,026,300</u> |
| [3] Total Liquid Reserve Amount: | <u>\$3,895,636</u> |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| <u>Qualifying Asset Description</u> | <u>Amount</u> <u>(market value at end of quarter)</u> | |
|---|--|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | <u>\$2,869,336</u> | <u>\$5,649,775</u> |
| [5] Investment Securities | <u>\$0</u> | <u>\$0</u> |
| [6] Equity Securities | <u>\$0</u> | <u>\$0</u> |
| [7] Unused/Available Lines of Credit | <u>\$0</u> | <u>\$0</u> |
| [8] Unused/Available Letters of Credit | <u>\$0</u> | <u>\$0</u> |
| [9] Debt Service Reserve | <u>\$0</u> | <u>\$0</u> |
| [10] Other: | <u>\$0</u> | <u>\$0</u> |
| <hr/> | | |
| <u>(describe qualifying asset)</u> | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] <u>\$2,869,336</u> | [12] <u>\$5,649,775</u> |
| Reserve Obligation Amount: | [13] <u>\$2,869,336</u> | [14] <u>\$1,026,300</u> |
| Surplus/(Deficiency): | [15] <u>\$0</u> | [16] <u>\$4,623,475</u> |

Signature:



(Authorized Representative)

Jim L. Hanson
Senior VP & Controller
Emeritus Corporation

(Title)

Date:

4/24/14

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that Emeritus at Yorba Linda should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, Emeritus at Yorba Linda has computed its liquid reserve requirement as of December 31, 2013, Emeritus at Yorba Linda's most recent fiscal year end, and the reserve is based on Emeritus Corporation consolidated audited financial statements for that period.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Carlsbad _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|--------------------------------------|-----------------------------------|-----------------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Emeritus Corporation
COMMUNITY: Emeritus at Northridge

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Rancho Mirage _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at San Juan Capistrano _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at San Dimas _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Santa Rosa _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>See Attached</u> | <u>See Attached</u> | <u>N/A</u> |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

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(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Carmel Valley _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Camarillo _____

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | RESIDENTIAL LIVING | ASSISTED LIVING | SKILLED NURSING |
|--|-------------------------------|----------------------------|----------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | See Attached | See Attached | N/A |

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

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- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: _____ Emeritus Corporation _____
COMMUNITY: _____ Emeritus at Yorba Linda _____

Level of Care Rate by Community

| | Carlsbad | Carmel Valley | San Juan | San Dimas | Northridge | Rancho Mirage | Santa Rosa | Yorba Linda | Camarillo |
|------------------------|----------|---------------|----------|-----------|------------|---------------|------------|-------------|-----------|
| Assisted Living | | | | | | | | | |
| Level of Care 1 | \$ 475 | \$ 475 | \$ 475 | \$ 475 | \$ 475 | \$ 475 | \$ 475 | \$ 475 | \$ 475 |
| Level of Care 2 | \$ 975 | \$ 975 | \$ 975 | \$ 975 | \$ 975 | \$ 975 | \$ 975 | \$ 975 | \$ 975 |
| Level of Care 3 | \$ 1,475 | \$ 1,475 | \$ 1,475 | \$ 1,375 | \$ 1,475 | \$ 1,475 | \$ 1,475 | \$ 1,475 | \$ 1,475 |
| Level of Care 4 | \$ 1,775 | \$ 1,775 | \$ 1,875 | \$ 1,775 | \$ 1,775 | \$ 1,775 | \$ 1,875 | \$ 1,775 | \$ 1,875 |
| Level of Care 5 | \$ 2,175 | \$ 2,175 | \$ 2,175 | \$ 2,175 | \$ 2,275 | \$ 2,275 | \$ 2,189 | \$ 2,175 | \$ 2,275 |
| Level of Care 6 | \$ 2,875 | \$ 2,875 | \$ 2,875 | \$ 2,875 | \$ 2,875 | | \$ 2,850 | | |
| Memory Care | | | | | | | | | |
| Level of Care 1 | \$ 1,211 | \$ 1,211 | \$ 1,211 | \$ 1,211 | \$ 1,241 | \$ 1,311 | \$ 1,311 | \$ 1,311 | \$ 1,311 |
| Level of Care 2 | \$ 1,798 | \$ 1,798 | \$ 1,698 | \$ 1,798 | \$ 1,789 | \$ 1,798 | \$ 1,888 | \$ 1,798 | \$ 1,698 |
| Level of Care 3 | \$ 2,225 | \$ 2,225 | \$ 2,225 | \$ 2,225 | \$ 2,336 | \$ 2,371 | \$ 2,396 | \$ 2,225 | \$ 2,325 |
| Level of Care 4 | \$ 2,825 | \$ 2,825 | \$ 2,825 | \$ 2,825 | \$ 2,640 | | \$ 2,925 | | \$ 2,925 |

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
Date Prepared: 4/17/14
APR 29 2014

FACILITY NAME: Emeritus at Camarillo CONTINUING CARE
 ADDRESS: 6000 Santa Rosa Rd., Camarillo, CA ZIP CODE: 93012 PHONE: 805-388-8086
 PROVIDER NAME: Emeritus Corporation and Emericare Inc FACILITY OPERATOR: Emeritus Corporation and Emericare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1999 # OF ACRES: 4.3 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: 6
 MILES TO HOSPITAL: 6

| NUMBER OF UNITS: | <u>RESIDENTIAL LIVING</u> | <u>HEALTH CARE</u> |
|--------------------------------|---------------------------|---|
| APARTMENTS — STUDIO: | <u>0</u> | ASSISTED LIVING: <u>90</u> |
| APARTMENTS — 1 BDRM: | <u>0</u> | SKILLED NURSING: <u>24</u> |
| APARTMENTS — 2 BDRM: | <u>0</u> | SPECIAL CARE: <u>45</u> |
| COTTAGES/HOUSES: | <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: | <u>92.45</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| COMMON AREA AMENITIES | FACILITY SERVICES AND AMENITIES | | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| | AVAILABLE | FEE FOR SERVICE | | | |
| BEAUTY/BARBER SHOP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation and Emericare Inc

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation and Emericare Inc

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|--------------|------------------------|------------------|------------------------|---------------------|------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | % | <u>2011</u> | % | <u>2012</u> | % | <u>2013</u> |
|-----------------|-------------|------|-------------|------|-------------|------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|--|-------------------|--|----------------|----------------|---------------------|
| Long-Term Debt Obligations: | | | | | |
| KeyBank - Chemical Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2011 | |
| Synovus Bank - Carolina 4 - September 2011 | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
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| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
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| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
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| KeyBank - Saddlebridge Lodge and Seville Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
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| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - Trice Pointe Acquisition - Fannie Mae - October 2009 | 11,532 | Principal plus interest at 6.18%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| KeyBank - Dowlen Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| Bankaid - Bras Whittier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.36% | 12/9/2013 | 1/1/2021 | |
| KeyBank - Mandeville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Oak Grove Capital - Bradenton and Brighton - Freddie Mac - March 2011 | 17,329 | Principal plus interest at 6.40%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | 15,395 | Principal plus interest at 6.06%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| KeyBank - Stonecreek Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| KeyBank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| KeyBank - Menstrin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Triple See Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seahawk and Arborwood | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| NHP - HRT Leasehold Acquisition - March 2005 | 21,426 | Interest only at 8.65% increasing annually by 0.15%, due March 2017 | Various | Various | Various |
| Auto Loans | 404 | Various | Various | Various | Various |

Secured Long-term Debt \$1,419,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses} \\ - \text{ Depreciation - Amortization)/365} \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Continuing Care Retirement Community
Disclosure Statement
General Information

RECEIVED
APR 29 2014

Date Prepared: 4/17/14

FACILITY NAME: Emeritus at Carlsbad
 ADDRESS: 3140 El Camino Real, Carlsbad, CA ZIP CODE: 92008 PHONE: 760.720.9898
 PROVIDER NAME: Emeritus Corp and EmeriCare Inc FACILITY OPERATOR: Emeritus Corp and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1999 # OF ACRES: 4.83 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 3

| NUMBER OF UNITS: | RESIDENTIAL LIVING | HEALTH CARE |
|--------------------------------|--------------------|---|
| APARTMENTS -- STUDIO: | <u>0</u> | ASSISTED LIVING: <u>90 beds</u> |
| APARTMENTS -- 1 BDRM: | <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| APARTMENTS -- 2 BDRM: | <u>0</u> | SPECIAL CARE: <u>24 beds</u> |
| COTTAGES/HOUSES: | <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: | <u>78.62</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| COMMON AREA AMENITIES | FACILITY SERVICES AND AMENITIES | | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------|
| | AVAILABLE | FEE FOR SERVICE | | | |
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|-------------------------------|-------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
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| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

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50th Percentile
(optional)

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| Keybank - Stonecreek Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| KeyBank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 7/30/2013 | 8/1/2022 | |
| KeyBank - Triple Soe Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 11/20/2012 | 12/1/2011 | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | | | |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seabrook and Ashwood | | | |
| NRP - HRT Leasehold Acquisition - March 2005 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | | | |
| Auto Loans | 404 | Various | Various | Various | |

Secured Long-term Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses} \\ - \text{ Depreciation - Amortization)/365} \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
Date Prepared: 4/17/14
APR 29 2014

FACILITY NAME: Emeritus at Carmel Valley CONTINUING CARE
 ADDRESS: 13101 Hartfield Ave., San Diego, CA ZIP CODE: 92130 PHONE: 619.585.2222
 PROVIDER NAME: Emeritus Corp and EmeriCare Inc FACILITY OPERATOR: Emeritus Corp and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1999 # OF ACRES: 4.1 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: 0.5
 MILES TO HOSPITAL: 6

| | | | | |
|--------------------------------|---------------------------|--------------|------------------------|----------------------|
| NUMBER OF UNITS: | RESIDENTIAL LIVING | | HEALTH CARE | |
| | APARTMENTS – STUDIO: | <u>0</u> | ASSISTED LIVING: | <u>90 beds</u> |
| | APARTMENTS – 1 BDRM: | <u>0</u> | SKILLED NURSING: | <u>45 beds</u> |
| | APARTMENTS – 2 BDRM: | <u>0</u> | SPECIAL CARE: | <u>24 beds</u> |
| | COTTAGES/HOUSES: | <u>0</u> | DESCRIBE SPECIAL CARE: | <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: | | <u>96.86</u> | | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| FACILITY SERVICES AND AMENITIES | | | | | |
|----------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER <u>Community Outings</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| OTHER <u>Internet Cafe/iPads</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|-------------------------------|-------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|--|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | <u>%</u> | <u>2011</u> | <u>%</u> | <u>2012</u> | <u>%</u> | <u>2013</u> |
|-----------------|-------------|----------|-------------|----------|-------------|----------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Issuer - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|--|-------------------|---|----------------|---------------------------|---------------------|
| Interest Debt Obligations: | | | | | |
| Keybank - Chenal Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolina 4 - September 2011 | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.73%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritess LLC - December 2013 | 13,635 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5% due January 2014 | 12/31/2013 | 12/31/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Interest only at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest2 buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NHP Acquisition - Fannie Mae - April 2008 | 223,003 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emeritex Palms Oceanside and Liberal Springs refinance - Fannie Mae - April 2008 | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Fretts refinance - Freddie Mac - April 2008 | 155,242 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2009 | 5/1/2018 | |
| Keybank - HC Reit Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Meadowbrook Retirement - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - Saddleridge Lodge and Seville Estates - Freddie Mac - November 2009 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Keybank - HC Reit Tranche 2 Acquisition - Freddie Mac - October 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Ventus 3 Acquisition - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | 11,532 | Principal plus interest at 6.14%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| Capmark - Trace Pointe Acquisition - Fannie Mae - October 2009 | 4,285 | Principal plus interest at 6.14%, due October 2019 | 11/1/2010 | 11/1/2020 | |
| Keybank - Dayton Oaks - Fannie Mae - November 2010 | 14,250 | Principal plus interest at LIBOR + 3.36% | 12/3/2013 | 1/1/2021 | |
| Berkadia - Brea Whittier - Freddie Mac - December 2013 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Keybank - Mandeville - Fannie Mae - March 2011 | 17,329 | Principal plus interest at 6.40%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Oak Grove Capital - Bradenton and Brighton - Freddie Mac - March 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Spinewood Acquisition - Fannie Mae - May 2011 | 15,395 | Principal plus interest at 6.06%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Stonestreak Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Mandarin - Fannie Mae - June 2012 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KeyBank - Triple Sec Refinance - Freddie Mac - July 2013 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042, 30 years | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seabrook and Arborwood | 12/1/2011 | 1/1/2047, 30 and 35 years | |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | |
| NHP - HRT Leasehold Acquisition - March 2005 | 404 | Various | Various | Various | |
| Auto Loans | | | | | |

Secured Long-term Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} (\text{Operating Expenses} \\ - \text{ Depreciation} - \text{ Amortization})/365 \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
Date Prepared: 4/17/14
APR 29 2014

FACILITY NAME: Emeritus at Northridge CONTINUING CARE
 ADDRESS: 17650 Devonshire Street, Northridge, CA ZIP CODE: 91325 PHONE: 818-886-6116
 PROVIDER NAME: Emeritus Corp and EmeriCare Inc FACILITY OPERATOR: Emeritus Corporation and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 2001 # OF ACRES: 6.08 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 4

NUMBER OF UNITS:

| | |
|---|---|
| RESIDENTIAL LIVING | HEALTH CARE |
| APARTMENTS – STUDIO: <u>0</u> | ASSISTED LIVING: <u>90 beds</u> |
| APARTMENTS – 1 BDRM: <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| APARTMENTS – 2 BDRM: <u>0</u> | SPECIAL CARE: <u>24 beds</u> |
| COTTAGES/HOUSES: <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: <u>90.88</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>8</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
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| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

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PROVIDER NAME: Emeritus Corp and EmeriCare Inc

CCRCs

LOCATION (City, State)

PHONE (with area code)

| | | |
|---------------------------------|-------------------------|--------------|
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| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corp and EmeriCare Inc

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|--------------|------------------------|------------------|------------------------|---------------------|------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | % | <u>2011</u> | % | <u>2012</u> | % | <u>2013</u> |
|-----------------|-------------|------|-------------|------|-------------|------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Enerplus Corporation
Schedule of Secured Debt
(In Thousands)

| Lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|--|--------------------|--|----------------|----------------|---------------------|
| Interest Debt Obligations: | | | | | |
| Keybank - Chenal Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolin 4 - September 2011 | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritus LLC - December 2013 | 13,635 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5% due January 2014 | 12/31/2013 | 1/23/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 10/31/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2007 | 9/1/2017 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NRP Acquisition Multifamily note - Fannie Mae - April 2008 | 225,003 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emerityl Palms Oceanside and Liberal Springs refinance - Fannie Mae - April 2008 | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Frutas refinance - Freddie Mac - April 2008 | 125,222 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Keybank - HC Reit Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | 155,242 | Principal plus interest at 6.65%, due July 2018 | 5/1/2009 | 7/1/2018 | |
| Keybank - Meadowbrook Retirement - Freddie Mac - November 2009 | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Saddlebridge Lodge and Seville Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - HC Reit Tranche 2 Acquisition - Freddie Mac - October 2008 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Capmark - Venus 5 Acquisition - Freddie Mac - December 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 10/1/2009 | 10/1/2019 | |
| Capmark - Truse Pointe Acquisition - Fannie Mae - October 2009 | 11,532 | Principal plus interest at 6.14%, due October 2019 | 11/1/2010 | 11/1/2020 | |
| Keybank - Dowden Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 12/5/2013 | 1/1/2021 | |
| Berklein - Brea Whittier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.36% | 12/5/2013 | 1/1/2021 | |
| Keybank - Mandeville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Oak Grove Capital - Brindstone and Brighton - Freddie Mac - March 2011 | 17,329 | Principal plus interest at 6.49%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | 15,395 | Principal plus interest at 6.06%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Stonestree Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 12/29/2011 | 1/1/2022 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 7/30/2012 | 8/1/2020 | |
| KeyBank - Triple See Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 11/20/2012 | 12/1/2042 | 30 years |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,327 | Principal plus interest at 3.70%, due January 2042 for Seahook and Arborwood | | | |
| NIP - HRT Leasehold Acquisition - March 2005 | 21,432 | Interest only at 8.63%, increasing annually by 0.15%, due March 2017 | | Various | |
| Auto Loans | 404 | Various | | Various | |
| | <u>\$1,449,648</u> | | | | |

Secured Long-term Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses} \\ - \text{ Depreciation - Amortization)/365} \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
APR 29 2014

Date Prepared: 4/17/14

FACILITY NAME: Emeritus at Rancho Mirage
 ADDRESS: 72-201 Country Club Drive, Rancho Mirage, CA ZIP CODE: 92270
 PROVIDER NAME: Emeritus Corp and EmeriCare Inc FACILITY OPERATOR: Emeritus Corp and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 2000 # OF ACRES: 6.22 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 1.5
 MILES TO HOSPITAL: 0.8

CONTINUING CARE
CONTRACTS SECTION

| | | |
|-------------------------|---|---|
| NUMBER OF UNITS: | RESIDENTIAL LIVING | HEALTH CARE |
| | APARTMENTS — STUDIO: <u>0</u> | ASSISTED LIVING: <u>90 capacity</u> |
| | APARTMENTS — 1 BDRM: <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| | APARTMENTS — 2 BDRM: <u>0</u> | SPECIAL CARE: <u>24 capacity</u> |
| | COTTAGES/HOUSES: <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| | RLU OCCUPANCY (%) AT YEAR END: <u>93.71</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| COMMON AREA AMENITIES | FACILITY SERVICES AND AMENITIES | | | | | |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|--|
| | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE | |
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| CARD ROOMS | <input type="checkbox"/> | <input type="checkbox"/> | | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| PUTTING GREEN | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| SPA | <input checked="" type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input type="checkbox"/> | |
| SWIMMING POOL-OUTDOOR | <input checked="" type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

**2012 CCAC Medians
50th Percentile
(optional)**

| | | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|--|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | <u>%</u> | <u>2011</u> | <u>%</u> | <u>2012</u> | <u>%</u> | <u>2013</u> |
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| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
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| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
 Schedule of Secured Debt
 (In Thousands)

| lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|---|-------------------|---|----------------|----------------|---------------------|
| Mortgage Debt Obligations: | | | | | |
| Keybank - Cheral Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Redi Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolina 4 - September 2011 | 25,900 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,321 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritus LLC - December 2013 | 13,635 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5%, due January 2014 | 12/31/2013 | 12/31/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NHP Acquisition Multifamily note - Fannie Mae - April 2008 | 225,033 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emeritkey Palms Oceanside and Liberal Springs refinance - Fannie Mae - April 2008 | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Fretus refinance - Freddie Mac - April 2008 | 125,222 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Keybank - HC Real Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | 155,242 | Principal plus interest at 6.65%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Misadwhook Retirement - Freddie Mac - November 2009 | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Saddleridge Lodge and Seville Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - HC Real Tranche 2 Acquisition - Freddie Mac - October 2008 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Capmark - Venas 5 Acquisition - Freddie Mac - December 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - Trace Point Acquisition - Fannie Mae - October 2009 | 11,532 | Principal plus interest at 6.14%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| Keybank - Dowlen Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| Beckwith - Brea Whittier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.16% | 3/3/2011 | 4/1/2021 | |
| Keybank - Mandeville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Oak Grove Capital - Brandon and Brighton - Freddie Mac - March 2011 | 17,329 | Principal plus interest at 6.40%, due April 2021 | 4/1/2011 | 4/1/2021 | |
| Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | 15,395 | Principal plus interest at 6.06%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Keybank - Stoneridge Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/3/2011 | 9/1/2021 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| Keybank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Triple Sec. Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KEYBANK - OLIVE GROVE - HUD 3 - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seabrook and Athorwood | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| NHP - HRT Leasehold Acquisition - March 2005 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | Various |
| Auto Loans | 404 | Various | Various | Various | Various |

Secured Long-term Debt \$1,449,548

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses} \\ - \text{ Depreciation} - \text{ Amortization)/365} \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED Date Prepared: 4/17/14
APR 29 2014

FACILITY NAME: Emeritus at San Dimas
 ADDRESS: 1740 San Dimas Ave., San Dimas, CA ZIP CODE: 91773 PHONE: 909-394-0304
 PROVIDER NAME: Emeritus Corporation and EmeriCare Inc FACILITY OPERATOR: Emeritus Corporation and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1999 # OF ACRES: 6.39 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: .5
 MILES TO HOSPITAL: 2

| NUMBER OF UNITS: | <u>RESIDENTIAL LIVING</u> | <u>HEALTH CARE</u> |
|--------------------------------|---------------------------|---|
| APARTMENTS — STUDIO: | <u>0</u> | ASSISTED LIVING: <u>90 beds</u> |
| APARTMENTS — 1 BDRM: | <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| APARTMENTS — 2 BDRM: | <u>0</u> | SPECIAL CARE: <u>23 beds</u> |
| COTTAGES/HOUSES: | <u>0</u> | DESCRIBE SPECIAL CARE: <u>Memory Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: | <u>85.44</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation and EmeriCare Inc

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

| | | |
|--|--|--|
| | | |
| | | |
| | | |
| | | |

FREE-STANDING SKILLED NURSING

N/A

| | | |
|--|--|--|
| | | |
| | | |
| | | |

SUBSIDIZED SENIOR HOUSING

N/A

| | | |
|--|--|--|
| | | |
| | | |
| | | |
| | | |

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation and EmeriCare Inc

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|--------------|------------------------|------------------|------------------------|---------------------|------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | 2011 | 2012 | 2013 |
|------------------------------------|------|-------|-------|
| DEBT TO ASSET RATIO | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | 2010 | % | 2011 | % | 2012 | % | 2013 |
|-----------------|----------|------|----------|------|----------|------|----------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Senior Debt Obligations | Lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|---|---------------------------------|-------------------|--|----------------|----------------|---------------------|
| Keybank - Chemal Clearwater and Mandarin Acquisition - November 2010 | | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolina 4 - September 2011 | | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| Keybank - Sweet 16 - October 2011 | | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritus LLC - December 2013 | | 13,633 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5%, due January 2014 | 12/31/2013 | 12/31/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 10/31/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest buildings | | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NEP Acquisition Multifamily note - Fannie Mae - April 2008 | | 225,003 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emeritely Palms Oceanside and Liberal Springs refinance - Fannie Mae - April 2008 | | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Fretus refinance - Freddie Mac - April 2008 | | 125,222 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Keybank - HC Reit Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | | 155,242 | Principal plus interest at 6.65%, due July 2018 | 5/1/2009 | 7/1/2018 | |
| Keybank - Meadowbrook Retirement - Freddie Mac - November 2009 | | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Saddlebridge Lodge and Seville Estates - Freddie Mac - November 2009 | | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - HC Reit Tranche 2 Acquisition - Freddie Mac - October 2008 | | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Capmark - Ventas 5 Acquisition - Freddie Mac - December 2008 | | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - Trizec Pointe Acquisition - Fannie Mae - October 2009 | | 11,532 | Principal plus interest at 6.19%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| Keybank - Dowden Oaks - Fannie Mae - November 2010 | | 4,385 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| Berkadia - Bren Whitler - Freddie Mac - December 2013 | | 14,250 | Principal plus interest at LIBOR + 3.36% | 12/2/2013 | 1/1/2021 | |
| Keybank - Mandeville - Fannie Mae - March 2011 | | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Oak Grove Capital - Bradenton and Brighton - Freddie Mac - March 2011 | | 17,329 | Principal plus interest at 6.40%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | | 15,995 | Principal plus interest at 6.00%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Oak Grove Capital - Grmale 2 Acquisition - Freddie Mac - July 2011 | | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Keybank - Stonerock Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Emeriti 7 - Fannie Mae - December 2011 | | 51,869 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| Keybank - Mandarin - Fannie Mae - June 2012 | | 10,233 | Principal plus interest at 4.98%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| Keybank - Triple See Refinance - Freddie Mac - July 2013 | | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | | 17,337 | Principal plus interest at 3.70%, due January 2042 for Ashbrook and Achewood | 12/1/2011 | 1/1/2042 | 30 and 35 years |
| NEP - HRT Leasehold Acquisition - March 2005 | | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | Various |
| Auto Loans | | 404 | Various | Various | Various | Various |

Secured Leasehold Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{aligned} &\text{Total Operating Expenses} \\ &\quad - \text{Depreciation Expense} \\ &\quad - \text{Amortization Expense} \end{aligned}}{\begin{aligned} &\text{Total Operating Revenues} \\ &\quad - \text{Amortization of Deferred Revenue} \end{aligned}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{aligned} &\text{Total Excess of Revenues over Expenses} \\ &\quad + \text{Interest, Depreciation,} \\ &\quad \text{and Amortization Expenses} \\ &\quad - \text{Amortization of Deferred Revenue} \\ &\quad + \text{Net Proceeds from Entrance Fees} \end{aligned}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{aligned} &\text{Unrestricted Current Cash \& Investments} \\ &\quad + \text{Unrestricted Non-Current Cash \& Investments} \end{aligned}}{\begin{aligned} &\text{(Operating Expenses} \\ &\quad - \text{Depreciation} - \text{Amortization)/365} \end{aligned}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 4/17/14

R E C E I V E D
APR 29 2014

FACILITY NAME: Emeritus at San Juan Capistrano
 ADDRESS: 31741 Rancho Viejo Rd., San Juan Capistrano, CA ZIP CODE: 92675 PHONE: 949-248-8855
 PROVIDER NAME: Emeritus Corporation and EmeriCare Inc FACILITY OPERATOR: Emeritus Corporation and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1999 # OF ACRES: 4.63 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: 0.1
 MILES TO HOSPITAL: 5

| NUMBER OF UNITS: | RESIDENTIAL LIVING | HEALTH CARE |
|--------------------------------|--------------------|---|
| APARTMENTS — STUDIO: | <u>0</u> | ASSISTED LIVING: <u>90 beds</u> |
| APARTMENTS — 1 BDRM: | <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| APARTMENTS — 2 BDRM: | <u>0</u> | SPECIAL CARE: <u>25 beds</u> |
| COTTAGES/HOUSES: | <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: | <u>69.38</u> | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (<u>4</u> TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (<u>3</u> /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

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The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation and EmeriCare Inc

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation and EmeriCare Inc

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | <u>%</u> | <u>2011</u> | <u>%</u> | <u>2012</u> | <u>%</u> | <u>2013</u> |
|-----------------|-------------|----------|-------------|----------|-------------|----------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Language Debt Obligations | Lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|---------------------------|--|-------------------|--|----------------|----------------|---------------------|
| | Keybank - Chama Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| | Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185%, due September 2014 | 9/1/2007 | 9/1/2014 | |
| | Synovus Bank - Carolina 4 - September 2011 | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| | KeyBank - Sweet 16 - October 2011 | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| | GE Capital - Emeritus LLC - December 2013 | 13,035 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5%, due January 2014 | 12/31/2013 | 12/31/2014 | |
| | MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| | GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
| | HCP - Emeritus acquisition of 9 Sunwest buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| | Copmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| | Copmark - NHP Acquisition Multifamily note - Fannie Mae - April 2008 | 225,903 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| | Keybank - Emeritely Palms Oceanside and Liberal Springs refinance - Fannie Mae - June 2008 | 74,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| | Copmark - Fretus refinance - Freddie Mac - April 2008 | 125,222 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| | Keybank - HC Real Tenets 1 Acquisition multifamily note - Freddie Mac - June 2008 | 155,242 | Principal plus interest at 6.65%, due July 2018 | 5/1/2009 | 7/1/2018 | |
| | Keybank - Meadowbrook Retirement - Freddie Mac - November 2009 | 3,268 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| | Keybank - Saddlebridge Lodge and Seville Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| | Keybank - HC Real Tenets 2 Acquisition - Freddie Mac - October 2008 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| | Copmark - Venus 5 Acquisition - Freddie Mac - December 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| | Copmark - Copmark 7 refinance - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| | Copmark - College Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.97% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| | Copmark - Trace Pointe Acquisition - Fannie Mae - October 2009 | 11,513 | Principal plus interest at 6.14%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| | Keybank - Dowden Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| | Berkadia - Brea Whitier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.06% | 12/2/2013 | 1/1/2021 | |
| | Keybank - Mandeville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| | Oak Grove Capital - Breckton and Brighton - Freddie Mac - March 2011 | 17,529 | Principal plus interest at 6.40%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| | Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | 13,099 | Principal plus interest at 6.03%, due June 2021 | 5/16/2011 | 6/1/2021 | |
| | Wells Fargo Bank - Filmore Pond Acquisition - Fannie Mae - July 2011 | 15,995 | Principal plus interest at 6.06%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| | Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| | Keybank - Stonocreek Lodge Brookmoor and Pinacole - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| | Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,869 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| | KeyBank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| | KeyBank - Triple Sec Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| | KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| | Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Sabrook and Arbrood | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| | NHP - HRT Leasehold Acquisition - March 2005 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | |
| | Auto Loans | 404 | Various | Various | Various | |

Secured Leasehold Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{aligned} &\text{Total Operating Expenses} \\ &\quad - \text{Depreciation Expense} \\ &\quad - \text{Amortization Expense} \end{aligned}}{\begin{aligned} &\text{Total Operating Revenues} \\ &\quad - \text{Amortization of Deferred Revenue} \end{aligned}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{aligned} &\text{Total Excess of Revenues over Expenses} \\ &\quad + \text{Interest, Depreciation,} \\ &\quad \text{and Amortization Expenses} \\ &\quad - \text{Amortization of Deferred Revenue} \\ &\quad + \text{Net Proceeds from Entrance Fees} \end{aligned}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{aligned} &\text{Unrestricted Current Cash \& Investments} \\ &\quad + \text{Unrestricted Non-Current Cash \& Investments} \end{aligned}}{\begin{aligned} &\text{(Operating Expenses} \\ &\quad - \text{Depreciation} - \text{Amortization))/365} \end{aligned}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Continuing Care Retirement Community
Disclosure Statement
General Information

RECEIVED
APR 29 2014

Date Prepared: 4/17/14

FACILITY NAME: Emeritus at Santa Rosa
ADDRESS: 3000 Fountaingrove Parkway, Santa Rosa, CA ZIP CODE: 95403 PHONE: 707-566-8600
PROVIDER NAME: Emeritus Corporation and EmeriCare Inc FACILITY OPERATOR: Emeritus Corporation and EmeriCare Inc
RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
YEAR OPENED: 2000 # OF ACRES: 5.5 SINGLE STORY MULTI-STORY OTHER: _____ MILES TO SHOPPING CTR: 1
MILES TO HOSPITAL: 1

| NUMBER OF UNITS: | RESIDENTIAL LIVING | HEALTH CARE |
|--------------------------------|--------------------|--------------------------------------|
| APARTMENTS — STUDIO: | 0 | ASSISTED LIVING: 92 beds |
| APARTMENTS — 1 BDRM: | 0 | SKILLED NURSING: 45 beds |
| APARTMENTS — 2 BDRM: | 0 | SPECIAL CARE: 24 beds |
| COTTAGES/HOUSES: | 0 | DESCRIBE SPECIAL CARE: Dementia Care |
| RLU OCCUPANCY (%) AT YEAR END: | 75.78 | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
(Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 LONG-TERM CARE INSURANCE REQUIRED? YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 55 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|-----------------------|-------------------------------------|--------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input checked="" type="checkbox"/> | <input type="checkbox"/> | HOUSEKEEPING (30 TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | MEALS (3 /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SPA | <input checked="" type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

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| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation and EmeriCare Inc

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| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

2012 CCAC Medians
50th Percentile
(optional)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|-------------|
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| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

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|-----------------|-------------|----------|-------------|----------|-------------|----------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Lender - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|---|-------------------|---|----------------|----------------|---------------------|
| Secured Debt Obligations: | | | | | |
| Keybank - Chelan Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,257 | Principal plus interest at 6.185% due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolina 4 - September 2011 | 25,000 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,321 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritus LLC - December 2013 | 13,635 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5% due January 2014 | 12/31/2013 | 12/31/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 214,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NFP Acquisition Multifamily note - Fannie Mae - April 2008 | 225,003 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emeritus Palms Oceanstate and Liberal Springs refinance - Fannie Mae - April 2008 | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Petrus refinance - Freddie Mac - April 2008 | 125,222 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Keybank - HC Reti Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | 155,242 | Principal plus interest at 6.65%, due July 2018 | 5/1/2009 | 7/1/2018 | |
| Keybank - Meadowsbrook Retirement - Freddie Mac - November 2009 | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Saddlebridge Lodge and Seville Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - HC Reti Tranche 2 Acquisition - Freddie Mac - October 2008 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Capmark - Ventas 5 Acquisition - Freddie Mac - December 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| Capmark - College Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/17/2009 | 1/1/2019 | |
| Capmark - Trace Pointe Acquisition - Fannie Mae - October 2009 | 11,532 | Principal plus interest at 6.14%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| Keybank - Davlen Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| Berklein - Brea Whittier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.30% | 12/3/2013 | 1/1/2021 | |
| Keybank - Minakville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Oak Grove Capital - Bradenton and Brighton - Freddie Mac - March 2011 | 17,329 | Principal plus interest at 6.40%, due April 2021 | 3/29/2011 | 4/1/2021 | |
| Wells Fargo Bank - Sprucewood Acquisition - Fannie Mae - May 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Fittmore Pond Acquisition - Fannie Mae - July 2011 | 15,395 | Principal plus interest at 6.06%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2011 | 8/1/2021 | |
| Keybank - Stonecreek Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| KeyBank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.59%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Triple See Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seabrook and Arborwood | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| NFP - HRT Leasehold Acquisition - March 2015 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | Various |
| Auto Loans | 404 | Various | Various | Various | Various |

Secured Long-term Debt **\$1,419,648**

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{aligned} &\text{Total Operating Expenses} \\ &\quad - \text{Depreciation Expense} \\ &\quad - \text{Amortization Expense} \end{aligned}}{\begin{aligned} &\text{Total Operating Revenues} \\ &\quad - \text{Amortization of Deferred Revenue} \end{aligned}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{aligned} &\text{Total Excess of Revenues over Expenses} \\ &\quad + \text{Interest, Depreciation,} \\ &\quad \text{and Amortization Expenses} \\ &\quad - \text{Amortization of Deferred Revenue} \\ &\quad + \text{Net Proceeds from Entrance Fees} \end{aligned}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{aligned} &\text{Unrestricted Current Cash \& Investments} \\ &\quad + \text{Unrestricted Non-Current Cash \& Investments} \end{aligned}}{\begin{aligned} &\text{(Operating Expenses} \\ &\quad - \text{Depreciation} - \text{Amortization})/365 \end{aligned}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

RECEIVED
Date Prepared: 4/17/14
APR 29 2014

FACILITY NAME: Emeritus at Yorba Linda
 ADDRESS: 17803 Imperial Highway, Yorba Linda, CA ZIP CODE: 92886 PHONE: 714.779.9666
 PROVIDER NAME: Emeritus Corporation and EmeriCare Inc FACILITY OPERATOR: Emeritus Corporation and EmeriCare Inc
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 2000 # OF ACRES: 4.64 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 0.8
 MILES TO HOSPITAL: 2.6

| | | |
|---|-------------------------------|---|
| NUMBER OF UNITS: | RESIDENTIAL LIVING | HEALTH CARE |
| | APARTMENTS — STUDIO: <u>0</u> | ASSISTED LIVING: <u>90 beds</u> |
| | APARTMENTS — 1 BDRM: <u>0</u> | SKILLED NURSING: <u>45 beds</u> |
| | APARTMENTS — 2 BDRM: <u>0</u> | SPECIAL CARE: <u>23 beds</u> |
| | COTTAGES/HOUSES: <u>0</u> | DESCRIBE SPECIAL CARE: <u>Dementia Care</u> |
| RLU OCCUPANCY (%) AT YEAR END: <u>93.35</u> | | |

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$ _____ TO \$ _____ **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: _____ None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

RESIDENT REPRESENTATIVE TO THE BOARD (briefly describe their involvement): Please see attached.

| FACILITY SERVICES AND AMENITIES | | | | | |
|---------------------------------|-------------------------------------|-------------------------------------|------------------------------|-------------------------------------|-------------------------------------|
| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
| BEAUTY/BARBER SHOP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (4 TIMES/MONTH) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | MEALS (3 /DAY) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

Resident Representative to the Board

The community encourages selected resident(s) to participate as a nonvoting representative on the community's designated governing body. The selected resident(s) may attend, speak and participate in all meetings of the community's designated governing body, with the exception of certain executive sessions. For confidentiality reasons, certain data or information including but not limited to data or information that identifies individuals and/or that is not appropriate for disclosure, may be withheld; only minimal necessary information is shared based upon a need to know basis.

PROVIDER NAME: Emeritus Corporation

| <u>CCRCs</u> | <u>LOCATION (City, State)</u> | <u>PHONE (with area code)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|
| Emeritus at Camarillo | Camarillo, CA | 805-388-8086 |
| Emeritus at Carlsbad | Carlsbad, CA | 760-720-9898 |
| Emeritus at Carmel Valley | San Diego, CA | 858-259-2222 |
| Emeritus at Northridge | Northridge, CA | 818-886-1616 |
| Emeritus at Rancho Mirage | Rancho Mirage, CA | 760-340-5999 |
| Emeritus at San Dimas | San Dimas, CA | 909-394-0304 |
| Emeritus at San Juan Capistrano | San Juan Capistrano, CA | 949-248-8855 |
| Emeritus at Santa Rosa | Santa Rosa, CA | 707-566-8600 |
| Emeritus at Yorba Linda | Yorba Linda, CA | 714-777-9666 |

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Emeritus Corporation

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$1,006,928,883 | \$1,254,811,240 | \$1,387,646,000 | \$1,928,862,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, and interest) | \$860,752,000 | \$1,070,711,000 | \$1,149,666,000 | \$1,605,884,000 |
| NET INCOME FROM OPERATIONS | \$146,176,883 | \$184,100,240 | \$237,980,000 | \$322,978,000 |
| LESS INTEREST EXPENSE | \$114,952,000 | \$15,726,200 | \$176,945,000 | \$287,389,000 |
| PLUS CONTRIBUTIONS | \$0 | \$0 | \$0 | \$0 |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | -\$1,923,000 | \$3,791,000 | \$684,000 | \$3,804,000 |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$29,301,883 | \$30,629,240 | \$61,719,000 | \$39,393,000 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$0 | \$0 | \$0 | \$0 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| <u>LENDER</u> | <u>OUTSTANDING BALANCE</u> | <u>INTEREST RATE</u> | <u>DATE OF ORIGINATION</u> | <u>DATE OF MATURITY</u> | <u>AMORTIZATION PERIOD</u> |
|---------------|--------------------------------|--------------------------|--------------------------------|-----------------------------|--------------------------------|
| See Attached | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS

(see next page for ratio formulas)

**2012 CCAC Medians
50th Percentile
(optional)**

| | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|------------------------------------|-------------|-------------|-------------|
| DEBT TO ASSET RATIO | 0.54 | 0.33 | 0.29 |
| OPERATING RATIO | 0.86 | 0.83 | 0.83 |
| DEBT SERVICE COVERAGE RATIO | 0.95 | 1.04 | 0.89 |
| DAYS CASH-ON-HAND RATIO | 9.29 | 12.61 | 14.56 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | <u>2010</u> | <u>%</u> | <u>2011</u> | <u>%</u> | <u>2012</u> | <u>%</u> | <u>2013</u> |
|-----------------|-------------|----------|-------------|----------|-------------|----------|-------------|
| STUDIO | \$2,917 | 6.6 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| ONE BEDROOM | \$2,817 | 6.0 | \$3,109 | 0.7 | \$3,131 | 0.0 | \$3,129 |
| TWO BEDROOM | \$4,258 | -0.4 | \$4,241 | 1.1 | \$4,287 | 2.0 | \$4,373 |
| COTTAGE/HOUSE | \$0 | 0.0 | \$0 | 0.0 | \$0 | 0.0 | \$2,545 |
| ASSISTED LIVING | \$2,850 | 2.5 | \$2,923 | 2.3 | \$2,988 | 1.4 | \$3,029 |
| SKILLED NURSING | \$10,225 | 9.5 | \$11,192 | -3.4 | \$10,817 | -3.7 | \$10,416 |
| SPECIAL CARE | \$4,239 | -2.5 | \$4,133 | -0.1 | \$4,127 | 3.4 | \$4,267 |

COMMENTS FROM PROVIDER:

Entrance Fees are not collected at the 9 California CCRC communities

Adjusted 2011 Operating Ratio to accurately reflect impact of Amortization of Deferred Revenue

Emeritus Corporation
Schedule of Secured Debt
(In Thousands)

| Leader - Obligation Description | Total Outstanding | Interest Rate | Date of Origin | Maturity Dates | Amortization Period |
|---|--------------------|---|----------------|----------------|---------------------|
| Mortgage Debt Obligations: | | | | | |
| Keybank - Cheral Clearwater and Mandarin Acquisition - November 2010 | \$5,800 | Principal plus interest at LIBOR plus 4.5% extended to June 2014 | 11/30/2010 | 6/30/2014 | |
| Red Mortgage Capital - Wegman Acquisition - Fannie Mae - August 2007 | 64,237 | Principal plus interest at 6.185% due September 2014 | 9/1/2007 | 9/1/2014 | |
| Synovus Bank - Carolina 4 - September 2011 | 25,900 | Interest only at LIBOR plus 3.75%, LIBOR floor of 2.0%, (5.75%), due October 2014 | 9/29/2011 | 10/1/2014 | |
| KeyBank - Sweet 16 - October 2011 | 14,521 | Principal plus interest at LIBOR plus 4.75% to 6.75% | 10/27/2011 | 10/27/2014 | |
| GE Capital - Emeritess LLC - December 2013 | 13,635 | Principal plus interest at 90-day LIBOR plus 3.25%, LIBOR floor of 0.5% due January 2014 | 12/31/2013 | 12/31/2014 | |
| MidCap Financial LLC - Garrison Creek - July 2012 | 6,250 | Interest only at LIBOR plus 5.85%, LIBOR floor of 1.0%, (6.85%) through February 2013, due June 2015 | 7/13/2012 | 6/30/2015 | |
| GE Capital - BREA Emeritus LLC - June 2011 | 190,395 | Principal plus interest at 90-day LIBOR plus 4.05%, LIBOR floor of 1%, due June 2016 | 6/1/2011 | 6/1/2016 | |
| HCP - Emeritus acquisition of 9 Sunwest2 buildings | 30,220 | Interest only at 6.10%, increasing annually by 20-30 basis points in years 1-4 to 6.80% | 10/31/2012 | 10/31/2016 | |
| Capmark - HCP Acquisition - Fannie Mae - August 2007 | 125,933 | Interest only at 6.305% through September 2010, due September 2017 | 9/1/2007 | 9/1/2017 | |
| Capmark - NHP Acquisition Multifamily note - Fannie Mae - April 2008 | 225,003 | Interest only at 5.905% through April 2011, due April 2018 | 4/1/2008 | 4/1/2018 | |
| Keybank - Emeritkey Palms OceanSide and Liberal Springs refinance - Fannie Mae - April 2008 | 24,641 | Interest only at 6.29% through April 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Capmark - Fretus refinance - Freddie Mac - April 2008 | 125,242 | Interest only at 6.21% through May 2011, due May 2018 | 5/1/2008 | 5/1/2018 | |
| Keybank - HC Reit Tranche 1 Acquisition multifamily note - Freddie Mac - June 2008 | 155,242 | Principal plus interest at 6.65%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Meadowbrook Retirement - Freddie Mac - November 2009 | 3,568 | Principal plus interest at 6.67%, due July 2018 | 11/12/2009 | 7/1/2018 | |
| Keybank - Saddlebridge Lodge and Serrill Estates - Freddie Mac - November 2009 | 8,230 | Principal plus interest at 6.74%, due November 2018 | 11/12/2009 | 11/1/2018 | |
| Keybank - HC Reit Tranche 2 Acquisition - Freddie Mac - October 2008 | 28,050 | Principal plus interest at 6.49% effective November 2010, due November 2018 | 10/16/2008 | 11/1/2018 | |
| Capmark - Venus 3 Acquisition - Freddie Mac - December 2008 | 25,000 | Interest only at 5.97% through January 2011, due January 2019 | 12/19/2008 | 1/1/2019 | |
| Capmark - Capmark 7 refinance - Freddie Mac - December 2008 | 32,899 | Interest only at 6.05% through January 2011, due January 2019 | 1/1/2009 | 1/1/2019 | |
| Capmark - Collage Park Club Acquisition - Freddie Mac - June 2009 | 7,534 | Interest only at 6.92% through January 2011, due January 2019 | 6/1/2009 | 10/1/2019 | |
| Capmark - Trace Pointe Acquisition - Fannie Mae - October 2009 | 11,532 | Principal plus interest at 6.14%, due October 2019 | 10/1/2009 | 10/1/2019 | |
| Keybank - Dowlen Oaks - Fannie Mae - November 2010 | 4,285 | Principal plus interest at 5.38%, due November 2020 | 11/1/2010 | 11/1/2020 | |
| Keybank - Brea Whittier - Freddie Mac - December 2013 | 14,250 | Principal plus interest at LIBOR + 3.36% | 12/3/2013 | 1/1/2021 | |
| Keybank - Mandeville - Fannie Mae - March 2011 | 7,574 | Principal plus interest at 6.43%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Oak Grove Capital - Bradenton and Brighton - Freddie Mac - March 2011 | 17,329 | Principal plus interest at 6.40%, due April 2021 | 3/31/2011 | 4/1/2021 | |
| Wells Fargo Bank - Spencewood Acquisition - Fannie Mae - May 2011 | 13,699 | Principal plus interest at 6.03%, due June 2021 | 5/16/2013 | 6/1/2021 | |
| Wells Fargo Bank - Finmore Pond Acquisition - Fannie Mae - July 2011 | 15,995 | Principal plus interest at 6.06%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| Oak Grove Capital - Granite 2 Acquisition - Freddie Mac - July 2011 | 14,302 | Principal plus interest at 6.02%, due August 2021 | 7/6/2013 | 8/1/2021 | |
| Keybank - Stonerack Lodge Broadmoor and Pinnacle - Freddie Mac - August 2011 | 27,891 | Principal plus interest at 5.29%, due September 2021 | 8/31/2011 | 9/1/2021 | |
| Keybank - Emerit 7 - Fannie Mae - December 2011 | 51,809 | Principal plus interest at 4.93%, due January 2022 | 12/29/2011 | 1/1/2022 | |
| KeyBank - Mandarin - Fannie Mae - June 2012 | 10,233 | Principal plus interest at 4.58%, due July 2022 | 6/19/2012 | 7/1/2022 | |
| KeyBank - Triple Sec Refinance - Freddie Mac - July 2013 | 17,791 | Principal plus interest at 5.17%, due August 1, 2020 | 7/30/2013 | 8/1/2020 | |
| KEYBANK - OLIVE GROVE - HUD - October 2012 | 3,991 | Principal plus interest at 2.70%, due December 2042 | 11/20/2012 | 12/1/2042 | 30 years |
| Oak Grove Commercial Mortgage - HUD 3 - December 2011 | 17,337 | Principal plus interest at 3.70%, due January 2042 for Amber Oaks and January 2047 for Seabrook and Arborwood | 12/1/2011 | 1/1/2047 | 30 and 35 years |
| NHP - HRT Leasehold Acquisition - March 2005 | 21,426 | Interest only at 8.65%, increasing annually by 0.15%, due March 2017 | Various | Various | Various |
| Auto Loans | 494 | Various | Various | Various | Various |
| | <u>\$1,449,648</u> | | | | |

Secured Long-term Debt \$1,449,648

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ - \text{ Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ - \text{ Amortization of Deferred Revenue} \\ + \text{ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses} \\ - \text{ Depreciation - Amortization)/365} \end{array}}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

KEY INDICATORS REPORT

Emeritus at Camarillo

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)

3. Net Operating Margin - Adjusted (%)

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)

5. Days Cash on Hand (Unrestricted)

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)

7. Net Annual E/F proceeds (\$000)

8. Unrestricted Net Assets (\$000)

9. Annual Capital Asset Expenditure (\$000)

10. Annual Debt Service Coverage Revenue Basis (x)

11. Annual Debt Service Coverage (x)

12. Annual Debt Service/Revenue (%)

13. Average Annual Effective Interest Rate (%)

14. Unrestricted Cash & Investments/ Long-Term Debt (%)

15. Average Age of Facility (years)

Senior Vice President Financial Services Signature

RECEIVED

Forecast

Projected

APR 23 2018
Preferred Legend Indicator

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | | |
|---|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|---|
| 1. Average Annual Occupancy by Site (%) | | | | 76% | 86% | 86% | 86% | 86% | 86% | 86% | 86% | CONTINUING CARE 86% CONTRACTS BRANCH |
| 2. Net Operating Margin (%) | | | | 16% | 28% | 28% | 28% | 28% | 28% | 28% | 28% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$140 | \$35 | \$35 | \$35 | \$35 | \$35 | \$35 | \$35 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.1 | 3.1 | 4.1 | 5.1 | 6.1 | 7.1 | 8.1 | 8.1 | ↓ |

N/A ¹

N/A ²

N/A ³

Community does not charge Entrance Fees

Community is not separately incorporated. Emeritus Corporation holds all cash

Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

KEY INDICATORS REPORT

Emeritus at Carlsbad

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

| | Projected | | | | | | | Forecast | | | 2013 Actual | 2014 Actual | Trend | | |
|---|-----------|------|------|-------|-------|-------|-------|----------|-------|-------|-------------|-------------|-------|-----|--|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 91% | 84% | 84% | 84% | 84% | 84% | 84% | 84% | 84% | 84% | | |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | | | | | |
| 2. Net Operating Margin (%) | | | | 30% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | ↑ | |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ | |
| LIQUIDITY INDICATORS | | | | | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ | |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ | |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A | |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A | |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A | |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$113 | \$117 | \$117 | \$117 | \$117 | \$117 | \$117 | \$117 | \$117 | \$117 | N/A | |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ | |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ | |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ | |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ | |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ | |
| 15. Average Age of Facility (years) | | | | 2.7 | 3.7 | 4.7 | 4.7 | 5.7 | 6.7 | 7.7 | 8.7 | 8.7 | 8.7 | ↓ | |

N/A¹

Community does not charge Entrance Fees

N/A²

Community is not separately incorporated. Emeritus Corporation holds all cash

N/A³

Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

Signature
Senior Vice President Financial Services
Signature
APR 29 2014
Preferred Trend

2013 CONTINENTAL
CONTRACTS BRANCH
N/A

KEY INDICATORS REPORT

Emeritus at Carmel Valley

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

Signature
Senior Vice President Financial Services Signature

RECEIVED
APR 28 2018
P-R-Office Trend Indicator

| | Projected | | | | | Forecast | | | Indicator | | |
|--|-----------|------|------|-------|-------|----------|-------|-------|-----------|-------|----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | 2017 | 2018 |
| OPERATIONAL STATISTICS | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 80% | 85% | 85% | 85% | 85% | 85% | 85% | CONTINUING CARE |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | COMMUNICATING BRANCH |
| 2. Net Operating Margin (%) | | | | 30% | 29% | 29% | 29% | 29% | 29% | 29% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$170 | \$116 | \$116 | \$116 | \$116 | \$116 | \$116 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.5 | 3.5 | 4.5 | 5.5 | 6.5 | 7.5 | 8.5 | ↓ |

N/A¹ Community does not charge Entrance Fees
 N/A² Community is not separately incorporated. Emeritus Corporation holds all cash
 N/A³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

KEY INDICATORS REPORT

Emeritus at Northridge

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)

3. Net Operating Margin - Adjusted (%)

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)

5. Days Cash on Hand (Unrestricted)

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)

7. Net Annual E/F proceeds (\$000)

8. Unrestricted Net Assets (\$000)

9. Annual Capital Asset Expenditure (\$000)

10. Annual Debt Service Coverage Revenue Basis (x)

11. Annual Debt Service Coverage (x)

12. Annual Debt Service/Revenue (%)

13. Average Annual Effective Interest Rate (%)

14. Unrestricted Cash & Investments/Long-Term Debt (%)

15. Average Age of Facility (years)

| | Projected | | | | | Forecast | | | Trend Indicator | | | | | |
|--|-----------|------|------|-------|-------|----------|-------|-------|-----------------|-------|----------|----------|-------|----------------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | 2017 | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 91% | 90% | 90% | 90% | 90% | 90% | 90% | APR 2017 | APR 2018 | 90% | CONTINUING CARE CONTRACTS BRANCH |
| 2. Net Operating Margin (%) | | | | 37% | 35% | 35% | 35% | 35% | 35% | 35% | | | 35% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | | | N/A 1 | ↓ |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | | | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | | | N/A 2 | ↑ |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | | | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | | | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | | | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$89 | \$52 | \$52 | \$52 | \$52 | \$52 | \$52 | | | \$52 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | | | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | | | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | | | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | | | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | | | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.1 | 3.1 | 4.1 | 5.1 | 6.1 | 7.1 | 8.1 | | | 8.1 | ↓ |

N/A¹ Community does not charge Entrance Fees

N/A² Community is not separately incorporated. Emeritus Corporation holds all cash

N/A³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

Signature
Senior Vice President Financial Services Signature

RECEIVED

APR 2017

CONTINUING CARE CONTRACTS BRANCH

KEY INDICATORS REPORT

Emeritus at Rancho Mirage

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)

3. Net Operating Margin - Adjusted (%)

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)

5. Days Cash on Hand (Unrestricted)

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)

7. Net Annual E/F proceeds (\$000)

8. Unrestricted Net Assets (\$000)

9. Annual Capital Asset Expenditure (\$000)

10. Annual Debt Service Coverage Revenue Basis (x)

11. Annual Debt Service Coverage (x)

12. Annual Debt Service/Revenue (%)

13. Average Annual Effective Interest Rate (%)

14. Unrestricted Cash & Investments/ Long-Term Debt (%)

15. Average Age of Facility (years)

| | Forecast | | | | | | | | | | 2018 CONTRACTS BRANCH N/A | |
|-----------|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------------|-------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | | |
| Projected | | | | | | | | | | | | |
| 88% | 88% | 88% | 88% | 76% | 88% | 88% | 88% | 88% | 88% | 88% | 88% | 88% |
| 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% | 21% |
| N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 |
| N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 |
| N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 |
| N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 |
| N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 |
| N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 |
| \$44 | \$44 | \$44 | \$227 | \$44 | \$44 | \$44 | \$44 | \$44 | \$44 | \$44 | \$44 | \$44 |
| N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 |
| N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 |
| N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 |
| N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 |
| 4.1 | 4.1 | 3.1 | 2.1 | 3.1 | 4.1 | 5.1 | 6.1 | 7.1 | 8.1 | 8.1 | 8.1 | 8.1 |

N/A ¹

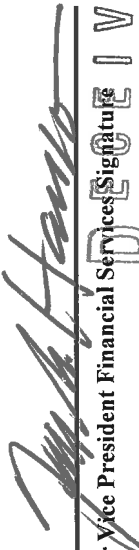
N/A ²

N/A ³

Community does not charge Entrance Fees

Community is not separately incorporated. Emeritus Corporation holds all cash

Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

Senior Vice President Financial Services Signature

 APR 29 2014
 Preferred
 CONTRACTS BRANCH
 N/A

KEY INDICATORS REPORT

Emeritus at San Dimas

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

Senior Vice President Financial Services Signature

RECEIVED

Prepared by and
Validated by

APR 2 2018

| | Forecast | | | | | | | Trend | | | | |
|---|----------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | 2016 | 2017 | 2018 | |
| OPERATIONAL STATISTICS | | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 86% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | CONTINUING CARE CONTRACTS BRANCH |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | | |
| 2. Net Operating Margin (%) | | | | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$60 | \$88 | \$88 | \$88 | \$88 | \$88 | \$88 | \$88 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.6 | 3.6 | 4.6 | 5.6 | 6.6 | 7.6 | 8.6 | 8.6 | ↓ |

N/A ¹ Community does not charge Entrance Fees

N/A ² Community is not separately incorporated. Emeritus Corporation holds all cash

N/A ³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

KEY INDICATORS REPORT

Emeritus at San Juan Capistrano

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

Michelle Capistrano
Senior Vice President Financial Services
Signature

APR 29 2014
Preferred Trend

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | CONTRACTS | BRANCH |
|---|------|------|-------|-------|-------|-----------|----------|-------|-------|-------|-------|-------|-----------|--------|
| | | | | | | Projected | Forecast | | | | | | | |
| OPERATIONAL STATISTICS | | | | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | 83% | 73% | 73% | 73% | 73% | 73% | 73% | 73% | 73% | 73% | 73% | N/A |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | | | | |
| 2. Net Operating Margin (%) | | | 35% | 27% | 27% | 27% | 27% | 27% | 27% | 27% | 27% | 27% | 27% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | \$174 | \$305 | \$305 | \$305 | \$305 | \$305 | \$305 | \$305 | \$305 | \$305 | \$305 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | 2.5 | 3.5 | 3.5 | 4.5 | 5.5 | 6.5 | 7.5 | 8.5 | 8.5 | 8.5 | 8.5 | ↓ |

N/A¹ Community does not charge Entrance Fees
 N/A² Community is not separately incorporated. Emeritus Corporation holds all cash
 N/A³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

KEY INDICATORS REPORT

Emeritus at Santa Rosa

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

Signature
 Senior Vice President Financial Services
APR 29 2014

| | Forecast | | | | | | | | | | |
|---|----------|------|------|-------|-------|-------|-------|-------|-------|-------|-----|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | |
| OPERATIONAL STATISTICS | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 86% | 81% | 81% | 81% | 81% | 81% | 81% | 81% |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | |
| 2. Net Operating Margin (%) | | | | 32% | 31% | 31% | 31% | 31% | 31% | 31% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$119 | \$36 | \$36 | \$36 | \$36 | \$36 | \$36 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.1 | 3.1 | 4.1 | 5.1 | 6.1 | 7.1 | 8.1 | ↓ |

Preferred
 CONTRACTS BRANCH

N/A¹ Community does not charge Entrance Fees
 N/A² Community is not separately incorporated. Emeritus Corporation holds all cash
 N/A³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation

KEY INDICATORS REPORT

Emeritus at Yorba Linda

Linda Yorba
Senior Vice President Financial Services Signature

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

APR 29 2014

Preferred Trend
CONTINUING CARE
CONTRACTS BRANCH

| | Forecast | | | | | | | Trend | | | | |
|---|----------|------|------|-------|-------|------|-------|-------|-------|-------|-------|-----|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | | 2016 | 2017 | 2018 | |
| OPERATIONAL STATISTICS | | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | | | | 93% | 92% | | 92% | 92% | 92% | 92% | 92% | N/A |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | | |
| 2. Net Operating Margin (%) | | | | 27% | 23% | | 23% | 23% | 23% | 23% | 23% | ↑ |
| 3. Net Operating Margin - Adjusted (%) | | | | N/A 1 | N/A 1 | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | | | | N/A 2 | N/A 2 | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | | | | N/A 2 | N/A 2 | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | | | | N/A 1 | N/A 1 | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 7. Net Annual E/F proceeds (\$000) | | | | N/A 1 | N/A 1 | | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A 1 | N/A |
| 8. Unrestricted Net Assets (\$000) | | | | N/A 2 | N/A 2 | | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A 2 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | | | | \$55 | \$161 | | \$161 | \$161 | \$161 | \$161 | \$161 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | | | | N/A 3 | N/A 3 | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 11. Annual Debt Service Coverage (x) | | | | N/A 3 | N/A 3 | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 12. Annual Debt Service/Revenue (%) | | | | N/A 3 | N/A 3 | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | | | | N/A 3 | N/A 3 | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | | | | N/A 3 | N/A 3 | | N/A 3 | N/A 3 | N/A 3 | N/A 3 | N/A 3 | ↑ |
| 15. Average Age of Facility (years) | | | | 2.1 | 3.1 | | 4.1 | 5.1 | 6.1 | 7.1 | 8.1 | ↓ |

N/A¹ Community does not charge Entrance Fees
 N/A² Community is not separately incorporated. Emeritus Corporation holds all cash
 N/A³ Community holds no debt, and is one of a portfolio of communities comprising a Master Lease Agreement entered into by Emeritus Corporation