

VENTAS INC
Form 10-K
February 22, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 1-10989

VENTAS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

61-1055020
(IRS Employer Identification No.)

10350 Ormsby Park Place, Suite 300, Louisville, Kentucky 40223
(Address of Principal Executive Offices) (Zip Code)
(502) 357-9000

(Registrant's Telephone Number, Including Area Code)

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

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Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.25 per share	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 Exchange 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 Exchange Act 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 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 of this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of shares of the Registrant's common stock, par value \$0.25 per share, held by non-affiliates of the Registrant as of June 30, 2006 was approximately \$3.5 billion. For purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

As of February 14, 2007, 106,269,462 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2007 are incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENTS

Unless otherwise indicated or except where the context otherwise requires, the terms **we**, **us** and **our** and other similar terms in this Annual Report on Form 10-K refer to Ventas, Inc. and its subsidiaries.

Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the **Exchange Act**). All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, dividends and dividend plans, financing plans, business strategy, budgets, projected costs, capital expenditures, competitive positions, acquisitions, investment opportunities, merger integration, growth opportunities, expected lease income, continued qualification as a real estate investment trust (**REIT**), plans and objectives of management for future operations and statements that include words such as **anticipate**, **if**, **believe**, **plan**, **estimate**, **expect**, **intend**, **may**, **could**, **should** and other similar expressions are forward-looking statements. These forward-looking statements are inherently uncertain, and security holders must recognize that actual results may differ from our expectations. We do not undertake a duty to update these forward-looking statements, which speak only as of the date on which they are made.

Our actual future results and trends may differ materially depending on a variety of factors discussed in our filings with the Securities and Exchange Commission (the **Commission**). Factors that may affect our plans or results include without limitation:

The ability and willingness of our operators, tenants, borrowers, managers and other third parties, as applicable, to meet and/or perform the obligations under their various contractual arrangements with us;

The ability and willingness of Kindred Healthcare, Inc. (together with its subsidiaries, **Kindred**), Brookdale Living Communities, Inc. (together with its subsidiaries, **Brookdale**) and Alterra Healthcare Corporation (together with its subsidiaries, **Alterra**) to meet and/or perform their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities under our respective contractual arrangements with Kindred, Brookdale and Alterra;

The ability of our operators, tenants, borrowers and managers, as applicable, to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to third parties, including without limitation obligations under their existing credit facilities;

Our success in implementing our business strategy and our ability to identify, underwrite, consummate and integrate diversifying acquisitions or investments, including those in different asset types and outside the United States;

The nature and extent of future competition;

The extent of future or pending healthcare reform and regulation, including cost containment measures and changes in reimbursement policies, procedures and rates;

Increases in our cost of borrowing;

The ability of our operators and managers, as applicable, to deliver high quality services and to attract residents and patients;

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The results of litigation affecting us;

Changes in general economic conditions and/or economic conditions in the markets in which we may, from time to time, compete;

Our ability to pay down, refinance, restructure and/or extend our indebtedness as it becomes due;

The movement of interest rates and the resulting impact on the value of and the accounting for our interest rate swap agreement;

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Our ability and willingness to maintain our qualification as a REIT due to economic, market, legal, tax or other considerations;

Final determination of our taxable net income for the year ended December 31, 2006 and for the year ending December 31, 2007;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases, including without limitation Kindred's willingness to renew any or all of its bundles of leased properties expiring in 2008, and our ability to relet our properties on the same or better terms in the event such leases expire and are not renewed by the existing tenants;

Risks associated with our proposed acquisition of Sunrise Senior Living REIT (Sunrise REIT), including our ability to successfully complete the transaction on the contemplated terms and to timely and fully realize the expected revenues and cost savings therefrom;

The movement of U.S. and Canadian exchange rates;

Year-over-year changes in the Consumer Price Index and the effect of those changes on the rent escalators, including the rent escalator for Master Lease 2 with Kindred, and our earnings; and

The impact on the liquidity, financial condition and results of operations of our operators, tenants, borrowers and managers, as applicable, resulting from increased operating costs and uninsured liabilities for professional liability claims, and the ability of our operators, tenants, borrowers and managers to accurately estimate the magnitude of these liabilities.

Many of these factors, some of which we describe in greater detail in Part I, Item 1A of this Annual Report on Form 10-K, are beyond our control and the control of our management.

Kindred and Brookdale Senior Living Information

Each of Kindred and Brookdale Senior Living Inc. (together with its subsidiaries, which include Brookdale and Alterra, Brookdale Senior Living) is subject to the reporting requirements of the Commission and is required to file with the Commission annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Kindred and Brookdale Senior Living contained or referred to in this Annual Report on Form 10-K is derived from filings made by Kindred or Brookdale Senior Living, as the case may be, with the Commission or other publicly available information, or has been provided to us by Kindred or Brookdale Senior Living. We have not verified this information either through an independent investigation or by reviewing Kindred's or Brookdale Senior Living's public filings. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you that all of this information is accurate. Kindred's and Brookdale Senior Living's filings with the Commission can be found at the Commission's website at www.sec.gov. We are providing this data for informational purposes only, and you are encouraged to obtain Kindred's and Brookdale Senior Living's publicly available filings from the Commission.

Certain Information Regarding ElderTrust Operating Limited Partnership

Not later than the deadline prescribed by the Exchange Act, we will cause ElderTrust Operating Limited Partnership (ETOP) to file an Annual Report on Form 10-K for the year ended December 31, 2006. ETOP's Annual Report, upon filing, shall be deemed incorporated by reference in this Annual Report on Form 10-K.

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We are a healthcare REIT with a geographically diverse portfolio of seniors housing and healthcare-related properties in the United States. As of December 31, 2006, this portfolio consisted of 172 seniors housing properties, 218 skilled nursing facilities, 43 hospitals and 19 other communities in 43 states. Except with respect to our medical office buildings, we lease these properties to healthcare operating companies under triple-net or absolute-net leases, which require the tenants to pay all property-related expenses. We also had real estate loan investments relating to seniors housing and healthcare-related third parties as of December 31, 2006.

We conduct substantially all of our business through our wholly owned subsidiaries, Ventas Realty, Limited Partnership (Ventas Realty) and PSLT OP, L.P. (PSLT OP), and ETOP, in which we own substantially all of the partnership units. Our primary business consists of financing, owning and leasing seniors housing and healthcare-related properties and leasing or subleasing those properties to third parties.

We were incorporated in Kentucky in 1983, commenced operations in 1985 and reorganized as a Delaware corporation in 1987. We operate through one reportable segment: investment in real estate. See our Consolidated Financial Statements and the related notes, including Note 2 Summary of Significant Accounting Policies, included in Part II, Item 8 of this Annual Report on Form 10-K.

Our business strategy is comprised of two primary objectives: (1) diversifying our portfolio of properties and (2) increasing our earnings. We intend to continue to diversify our real estate portfolio by operator, facility type, geography and reimbursement source through investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare-related assets across a wide spectrum.

Portfolio of Properties

As of December 31, 2006, Ventas Realty owned 425 of our properties, consisting of 158 seniors housing communities (including 84 seniors housing communities owned by PSLT OP), 41 hospitals, 213 skilled nursing facilities (including one owned by PSLT OP) and 13 other properties, and ETOP owned 17 of our properties, consisting of nine seniors housing communities, five skilled nursing facilities and three other properties. We and certain of our other subsidiaries owned the remaining ten properties.

The following table provides an overview of our portfolio of properties and other real estate investments:

As of and For the Year Ended December 31, 2006							Original	
Portfolio by Type	# of Properties	# of Beds/Units	Revenue	Percent of Total Revenues (dollars in thousands)	Original Investment	Percent of	Investment	Number
						Original	Per	of
						Investment	Bed/Unit	States (1)
Seniors Housing and Healthcare-Related Properties								
Seniors housing communities	172	17,508	\$ 169,023	39.5%	\$ 2,328,840	62.8%	\$ 133.0	31
Skilled nursing facilities	218	27,387	158,795	37.1	952,333	25.7	34.8	30
Hospitals	43	4,044	82,331	19.2	372,755	10.1	92.2	19
Other properties	19	122	8,300	1.9	53,909	1.4	nm	5
Total seniors housing and healthcare-related properties	452	49,061	\$ 418,449	97.7	\$ 3,707,837	100%		43

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Other Real Estate Investments				
Loans receivable	7	604	7,014	1.6
Total	459	49,665	\$ 425,463	99.3%(2)

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- (1) As of December 31, 2006, we owned seniors housing and healthcare-related properties located in 43 states operated by 18 different operators.
 - (2) The remainder of our total revenues is interest and other income.
- nm - not meaningful.

Seniors Housing and Healthcare-Related Properties

Seniors Housing Communities. Our seniors housing communities are comprised of assisted and independent living facilities that offer residential units on a month-to-month basis primarily to elderly individuals with various levels of assistance requirements. Residents of these facilities are provided meals in a central dining area and engage in group activities organized by the staff. Assisted living residents may also be provided personal supervision and daily assistance with eating, bathing, grooming and administering medication that make it possible for them to live independently.

Skilled Nursing Facilities. Our skilled nursing facilities typically provide nursing care services to the elderly and rehabilitation and restoration services, including physical, occupational and speech therapies, and other medical treatment for patients and residents who do not require the high technology, care-intensive setting of an acute care or rehabilitation hospital.

Hospitals. Our hospitals generally are long-term acute care hospitals that serve medically complex, chronically ill patients who require a high level of monitoring and specialized care, but whose conditions do not necessitate the continued services of an intensive care unit. The operator of these hospitals has the capability to treat patients who suffer from multiple systemic failures or conditions such as neurological disorders, head injuries, brain stem and spinal cord trauma, cerebral vascular accidents, chemical brain injuries, central nervous system disorders, developmental anomalies and cardiopulmonary disorders. Chronic patients are often dependent on technology for continued life support, such as mechanical ventilators, total parenteral nutrition, respiration or cardiac monitors and dialysis machines, and, therefore, due to their severe medical conditions, these patients generally are not clinically appropriate for admission to a nursing facility or rehabilitation hospital.

Other Properties. Our other properties consist of medical office buildings, which offer office space primarily to physicians and other healthcare-related businesses, and personal care facilities, which provide specialized care, including supported living services, neurorehabilitation, neurobehavioral management and vocational programs, for persons with acquired or traumatic brain injury.

Other Real Estate Investments

As of December 31, 2006, our other real estate investments consisted of six first mortgage loans, secured by seven properties, in the outstanding aggregate principal amount of \$35.9 million.

Each first mortgage loan accrues interest at a rate of 9% per annum and provides for monthly amortization of principal with a balloon payment maturity date ranging between February and December 2010. Three of these loans were extended in conjunction with the buy-out of our \$21.4 million investment in eight distressed mortgage loans and are guaranteed by a third party, unrelated to the borrower, and its two principals. The remaining three loans are guaranteed by an affiliate of the borrower and its two principals.

See Note 7 Loans Receivable of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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Our portfolio of seniors housing and healthcare-related properties is broadly diversified by geographic location in the United States, with properties in two states comprising more than 10% of our 2006 total revenues. The following table shows our rental income derived by geographic location:

State	For the Year Ended December 31, 2006	
	Rental Income	Percent of Total Revenues
	(dollars in thousands)	
Illinois	\$ 50,860	11.9%
California	49,324	11.5%
Massachusetts	37,453	8.7%
Florida	30,694	7.2%
Indiana	20,606	4.8%
Ohio	18,828	4.4%
Kentucky	15,667	3.7%
North Carolina	14,732	3.4%
Texas	14,258	3.3%
Pennsylvania	14,003	3.3%
Other (33 states)	152,024	35.5%
Total	\$ 418,449	97.7%(1)

(1) The remainder of our total revenues is interest from loans receivable and interest and other income.

Certificates of Need

A majority of our skilled nursing facilities and hospitals are located in states that have certificate of need (CON) requirements. A CON, which is issued by a governmental agency with jurisdiction over healthcare facilities, is at times required for expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major items of equipment or introduction of new services. The CON rules and regulations may restrict our or our operators' ability to expand our properties in certain circumstances.

The following table shows the percentage of our rental income derived by skilled nursing facilities and hospitals in states with and without CON requirements:

	For the Year Ended December 31, 2006		
	Skilled Nursing		
	Facilities	Hospitals	Total
States with CON requirements	73.4%	50.9%	65.9%
States without CON requirements	26.6	49.1	34.1
Total	100.0%	100.0%	100.0%

Senior Care Acquisition

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On November 7, 2006, we completed the acquisition of all of the outstanding equity interests of VSCRE Holdings, LLC (VSCRE) and all of the issued and outstanding beneficial interests of IPC AL Real Estate Investment Trust (IPC) in a transaction with SCRE Investments, Inc. (SCRE) and IPC Equity Holdings Limited. The aggregate consideration for the transaction was \$602.4 million, consisting of approximately \$422.6 million in cash, the assumption of \$114.8 million of mortgage debt that we have since repaid and 1,708,279 shares of our common stock.

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IPC and VSCRE, an entity recently formed for the purpose of acquiring real estate assets prior to its acquisition by us, consist of a portfolio of 64 senior care properties, comprised of four separate asset groups previously owned by 14 different predecessor entities. As a result of the consummation of the transaction, we, through IPC and VSCRE, acquired 40 assisted living communities, four multi-level retirement communities, 18 skilled nursing facilities and two rehabilitation hospitals in 15 states.

Following the acquisition, of IPC and VSCRE, the 64 properties are being leased to affiliates of Senior Care, Inc. ("Senior Care"), an affiliate of SCRE, pursuant to the terms of a triple-net master lease having an initial term of 15 years and two five-year extensions. The tenants' obligations under the master lease are guaranteed, directly or indirectly, by the tenants' parent, Senior Care Operations Holdings, LLC, and its parent, Senior Care.

In connection with this acquisition, we have committed to purchase two additional assisted living communities for approximately \$18.5 million, subject to approval of the U.S. Department of Housing and Urban Development ("HUD") of the loan assumptions by us relating to \$9.0 million of mortgage debt encumbering those assets and satisfaction of certain other conditions. We expect to acquire these two assets in the first half of 2007.

Proposed Sunrise REIT Acquisition

On January 14, 2007, we and our wholly owned subsidiaries, 2124678 Ontario Inc. (the "Securities Purchaser") and 2124680 Ontario Inc. (the "Asset Purchaser" and, together with the Securities Purchaser, the "Purchasers"), entered into a purchase agreement (the "Purchase Agreement") with Sunrise REIT, Sunrise REIT Trust ("Sub Trust") and Sunrise REIT GP Inc. ("Sunrise GP"), in its capacity as general partner of Sunrise Canadian UPREIT, LP ("UPREIT"). Pursuant to the terms and subject to the conditions set forth in the Purchase Agreement, we have agreed to cause the Purchasers to acquire all of Sunrise REIT's assets and to assume all of Sunrise REIT's liabilities (the "Transaction") for approximately \$1.8 billion based on the exchange rates in effect at the time we entered into the Purchase Agreement.

At the effective time of the Transaction, the Securities Purchaser will purchase all of the interests and assume all of the liabilities of Sunrise REIT Canadian Holdings Inc. ("Canco") and certain of Sunrise REIT's intercompany notes held by Sub Trust, and the Asset Purchaser will acquire all of Sunrise REIT's remaining assets and liabilities from Sunrise REIT, Sub Trust and UPREIT. If approved by Sunrise REIT's unitholders, each unit of beneficial interest of Sunrise REIT outstanding immediately prior to the effective time will be redeemed at a redemption price of Cdn \$15 in cash without any action on the part of the unitholders. The closing of the Transaction is scheduled to occur during the second quarter of 2007 and is subject to the satisfaction of customary closing conditions, including the approval of Sunrise REIT's unitholders.

The Purchase Agreement is not subject to a financing condition. We expect to fund the Sunrise REIT acquisition through a fully committed bridge facility, composed of a \$1.0 billion senior interim loan and a \$600.0 million senior perpetual preferred stock issuance, and/or some combination of proceeds from asset sales (in whole or in part through joint venture arrangements with third parties), borrowings on our unsecured revolving credit facility, mortgage loan assumptions and other sources.

As a result of the Transaction, we will acquire a 100% interest in 18 senior living communities and a 75-85% interest in 56 additional senior living communities, with the minority interest in those 56 communities being owned by affiliates of Sunrise Senior Living, Inc. ("Sunrise"). Of the 74 communities, 63 are located in metropolitan areas of 17 U.S. states and 11 are located in the Canadian provinces of Ontario and British Columbia. In addition, we expect to acquire for a fixed price five communities in the U.S. and Canada that are currently under development. Upon closing, we expect to own in aggregate 527 assets in 43 U.S. states and two Canadian provinces.

On January 14, 2007, we also entered into a letter agreement (the "Letter Agreement") with Sunrise. Sunrise and its affiliates manage Sunrise REIT's senior living communities pursuant to various management and other

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agreements and have other contractual relationships with Sunrise REIT. The Letter Agreement provides for the modification of certain terms under the existing agreements between Sunrise REIT and its affiliates, on the one hand, and Sunrise and its affiliates, on the other hand (the Existing Agreements), to be reflected in definitive agreements between the parties, which modifications will be effective upon closing of the Transaction. Pursuant to the Letter Agreement, the Strategic Alliance Agreement dated as of December 23, 2004 between Sunrise and Sunrise REIT will be terminated effective upon the closing and replaced with a new agreement that will provide, among other things, a right of first offer to us to acquire properties developed by Sunrise or its affiliates in Canada and in certain locations of the United States, generally on the terms set forth in the existing Strategic Alliance Agreement, but subject to modification of those terms to address changes in circumstances and other matters. The Letter Agreement also (1) provides us assurances that Sunrise will cooperate with us in connection with our compliance with the REIT rules under the Internal Revenue Code of 1986, as amended (the Code), and in connection with our financial reporting obligations, (2) contains restrictions on our rights to transfer our interest in the acquired properties to transferees who compete with Sunrise or who do not meet certain requirements, (3) provides that Sunrise consents to the transactions contemplated by the Purchase Agreement and waives certain rights under the Existing Agreements, and (4) confirms our right of first offer to acquire certain properties and various factual matters. The Letter Agreement is binding upon closing of the Transaction, but is expected to be replaced by more definitive agreements as described above.

On February 14, 2007, Health Care Property Investors, Inc. (HCPI) submitted a proposal to acquire the assets of Sunrise REIT. HCPI has put forth an amended proposal and also proposed to enter into an agreement with Sunrise. We as well as Sunrise REIT, Sunrise and HCPI are seeking legal interpretations in the Ontario Superior Court of Justice concerning various agreements pertaining to the acquisition of Sunrise REIT.

Significant Tenants

As of December 31, 2006, approximately 27.4% and 37.4% of our properties, based on their original cost, were operated by Kindred and Brookdale Senior Living, respectively, and for the year then ended, Kindred and Brookdale Senior Living accounted for approximately 51.6% and 28.6%, respectively, of our total revenues. Our reliance on Kindred is a result of our spin off of Kindred in May 1998, pursuant to which we transferred to Kindred our previous hospital, nursing facility and ancillary services businesses and we retained substantially all of the real property which we leased to Kindred. Our reliance on Brookdale Senior Living is a result of our acquisition of Provident Senior Living Trust (Provident) in June 2005 and the subsequent combination of Brookdale and Alterra under Brookdale Senior Living.

Because we lease a substantial portion of our properties to Kindred and Brookdale Senior Living and each of them is a significant source of our total revenues, their financial condition and ability and willingness to satisfy their obligations under their respective leases and certain other agreements with us, and their willingness to renew those leases upon expiration of the initial base term thereof, will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. We cannot assure you that Kindred or Brookdale Senior Living will have sufficient assets, income and access to financing to enable it to satisfy these obligations, and any inability or unwillingness on its part to do so would have a material adverse effect on our business, financial condition, results of operation and liquidity, on our ability to service our indebtedness and other obligations and on our ability to make distributions to our stockholders, as required for us to continue to qualify as a REIT (a Material Adverse Effect). We also cannot assure you that Kindred or Brookdale Senior Living will elect to renew its leases with us upon expiration of the initial base terms thereof. See Risks Arising from Our Business We are dependent on Kindred and Brookdale Senior Living; Kindred s or Brookdale Senior Living s inability or unwillingness to satisfy its obligations under its agreements with us could significantly harm us and our ability to service our indebtedness and other obligations and to make distributions to our stockholders, as required for us to continue to qualify as a REIT included in Item 1A of this Annual Report on Form 10-K.

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Kindred Master Leases

Each of our master lease agreements with Kindred (collectively, the Kindred Master Leases) is a triple-net lease pursuant to which Kindred is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. The properties leased to Kindred pursuant to the Kindred Master Leases are grouped into renewal bundles, with each bundle containing a varying number of properties. All properties within a bundle have primary terms ranging from ten to 15 years, commencing May 1, 1998, and, provided certain conditions are satisfied, are subject to three five-year renewal terms. Seven bundles containing 64 facilities are scheduled to expire on April 30, 2008 if not renewed by Kindred on or before April 30, 2007. Kindred has stated that disciplined M&A analysis [is] being applied by Kindred to evaluate each bundle.

Under each Kindred Master Lease, the aggregate annual rent is referred to as Base Rent (as defined in the applicable Kindred Master Lease). Base Rent escalates on May 1 of each year at a specified rate over the Prior Period Base Rent (as defined in the applicable Kindred Master Lease) contingent upon the satisfaction of specified facility revenue parameters. Assuming these revenue parameters are met, Base Rent due under the Kindred Master Leases will be \$245.2 million from May 1, 2007 to April 30, 2008. See Note 3 Revenues from Properties of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

On May 9, 2006, we initiated our one-time right under each of the Kindred Master Leases to increase the annual rent on the 225 properties we lease to Kindred to Fair Market Rental levels effective July 19, 2006, using a predetermined process described in the Kindred Master Leases.

On October 6, 2006, the final appraisers designated by us and Kindred determined that the aggregate Fair Market Rental for our properties is approximately \$239.0 million, representing an annualized increase of \$33.1 million over the then existing Base Rent under the Kindred Master Leases. The final appraisers also specified that the market annual rent escalator is 2.7% under Kindred Master Leases 1, 3 and 4, and is based on year-over-year changes in the Consumer Price Index, with a floor of 2.25% and a ceiling of 4%, under Kindred Master Lease 2. Our receipt of the rental escalators in any given year remains contingent upon the facility annual revenue parameters set forth in the original Kindred Master Leases being satisfied.

On October 12, 2006, we exercised our election to increase aggregate Base Rent under all four Kindred Master Leases by \$33.1 million per year, as determined by the final appraisers, and paid to Kindred a \$4.6 million reset fee, as required by the Kindred Master Leases. Under the terms of the Kindred Master Leases, the new, increased Base Rent was effective as of July 19, 2006, and the revised rent escalators will apply commencing May 1, 2007.

Brookdale Senior Living Leases

Each of our leases with subsidiaries of Brookdale Senior Living is a triple-net lease pursuant to which the tenant is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. In addition, the tenants are required to comply with the terms of the mortgage financing documents affecting the properties. Our leases with Brookdale have primary terms of 15 years, commencing either January 28, 2004 (in the case of 15 Grand Court properties we acquired in early 2004) or October 19, 2004 (in the case of the properties we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two ten-year renewal terms. Our leases with Alterra also have primary terms of 15 years, commencing either October 20, 2004 or December 16, 2004 (both in the case of properties we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two five-year renewal terms.

Under the terms of the Brookdale leases assumed in connection with the Provident acquisition, Brookdale is obligated to pay base rent, which escalates on January 1 of each year, by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) 3%.

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Under the terms of the Brookdale leases with respect to the Grand Court properties, Brookdale is obligated to pay base rent, which escalates on February 1 of each year, by an amount equal to the greater of (i) 2% or (ii) 75% of the increase in the Consumer Price Index during the immediately preceding year. Under the terms of the Alterra leases, Alterra is obligated to pay base rent, which escalates either on January 1 or November 1 of each year by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) 2.5%. The aggregate annualized contractual cash base rent expected from Brookdale Senior Living for 2007 is approximately \$103.7 million, excluding variable interest Brookdale is obligated to pay as additional rent based on various variable rate mortgages assumed by us during the Provident acquisition. The aggregate annualized contractual GAAP rent (computed in accordance with U.S. generally accepted accounting principles (GAAP)), excluding the variable interest, expected from Brookdale Senior Living for 2007 is approximately \$119.6 million. See Note 3 Revenues from Properties and Note 12 Commitments and Contingencies of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Competition

We compete for real property investments with healthcare providers, other healthcare-related REITs, healthcare lenders, real estate partnerships, banks, insurance companies and other investors. Some of our competitors are significantly larger and have greater financial resources and lower cost of capital than we do. Our ability to continue to compete successfully for real property investments will be determined by numerous factors, including our ability to identify suitable acquisition or investment targets, our ability to negotiate acceptable terms for any such acquisition and the availability and cost of capital to us. See Risks Arising from Our Business We may encounter certain risks when implementing our business strategy to pursue investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare-related assets included in Item 1A of this Annual Report on Form 10-K and Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

The operators and managers, as applicable, of our properties compete on a local and regional basis with other seniors housing and healthcare operators. Their ability to compete successfully for residents and patients at our properties depends upon several factors, including the scope and quality of services provided, the operational reputation of the operator, physician referral patterns, physical appearance of the properties, other competitive systems of healthcare delivery within the community, population and demographics, and the financial condition of the operator. Private, federal and state reimbursement programs and the effect of other laws and regulations also may have a significant impact on our healthcare operators and managers ability to compete successfully for patients at the properties. See Risks Arising from Our Business Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants and operators included in Item 1A of this Annual Report on Form 10-K.

Employees

As of December 31, 2006, we had 37 full-time employees. We consider the relationship with our employees to be good.

Insurance

We maintain and/or require in our existing leases that our tenants maintain liability and casualty insurance on the properties and their operations. For example, under the Kindred Master Leases, Kindred is required to maintain, at its expense, certain insurance coverage related to the properties under the Kindred Master Leases and Kindred's operations at those properties. However, we cannot assure you that Kindred or our other tenants will maintain such insurance, and any failure by our tenants to do so could have a Material Adverse Effect on us. We believe that our tenants are in substantial compliance with the insurance requirements contained in their respective leases with us.

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We believe that the amount and scope of insurance coverage provided by our own and our tenants' policies are customary for similarly situated companies in our industry. We cannot assure you that in the future such insurance will be available at a reasonable price or that we will be able to maintain adequate levels of insurance coverage.

Due to the increase in the number and severity of professional liability claims against healthcare providers, the availability of professional liability insurance has been severely restricted and the premiums for such insurance coverage has increased dramatically. As a result, many healthcare providers may incur large funded and unfunded professional liability expense, which could have a material adverse effect on their liquidity, financial condition and results of operations. In addition, many healthcare providers are pursuing different organizational and corporate structures coupled with insurance programs that provide less insurance coverage. Therefore, we cannot assure you that our tenants will continue to carry the insurance coverage required under the terms of their leases with us or that we will continue to require the same levels of insurance under our leases.

Additional Information

We maintain a website at www.ventasreit.com. The information on our website is not incorporated by reference in this Annual Report on Form 10-K, and our web address is included as an inactive textual reference only.

We make available, free of charge, through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Commission. In addition, our Guidelines on Governance, the charters for each of our Audit and Compliance, Nominating and Governance and Executive Compensation Committees and our Code of Ethics and Business Conduct are available on our website, and we will mail copies of the foregoing documents to stockholders, free of charge, upon request to Corporate Secretary, Ventas, Inc., 10350 Ormsby Park Place, Suite 300, Louisville, Kentucky 40223.

GOVERNMENTAL REGULATION

Healthcare Regulation

General

The operators of certain of our properties derive a substantial portion of their revenues from third party payors, including the Medicare and Medicaid programs. Medicare is a federal program that provides certain hospital and medical insurance benefits to persons age 65 and over, certain disabled persons and persons with end-stage renal disease. Medicaid is a medical assistance program jointly funded by federal and state governments and administered by each state pursuant to which benefits are available to certain indigent patients. The Medicare and Medicaid statutory framework is subject to administrative rulings, interpretations and discretion that affect the amount and timing of reimbursement made under Medicare and Medicaid. The amounts of program payments received by our operators and tenants can be changed from time to time, and at any time, by legislative or regulatory actions and by determinations by agents for the programs. See *Healthcare Reform*. Such changes may be applied retroactively under certain circumstances. In addition, private payors, including managed care payors, continually demand discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk. Efforts to impose greater discounts and more stringent cost controls upon operators by private payors are expected to intensify and continue. We cannot assure you that adequate third party reimbursement levels will continue to be available for services to be provided by the operators of our properties which currently are being reimbursed by Medicare, Medicaid and private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on these operators' liquidity, financial condition and results of operations, which could affect adversely their ability to make rental payments under, and otherwise comply with the terms of, their leases with us.

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The operators of certain of our properties are subject to other extensive federal, state and local laws and regulations including, but not limited to, laws and regulations relating to licensure, conduct of operations, ownership of facilities, addition of facilities, services, prices for services, billing for services, and the confidentiality and security of health-related information. These laws authorize periodic inspections and investigations, and identification of deficiencies that, if not corrected, can result in sanctions that include suspension or loss of licensure to operate and loss of rights to participate in the Medicare and Medicaid programs. Regulatory agencies have substantial powers to affect the actions of operators of our properties if the agencies believe that there is an imminent threat to patient welfare, and in some states these powers can include assumption of interim control over facilities through receiverships.

Seniors Housing Communities. Our seniors housing properties include independent and assisted living facilities. Independent living facilities provide services to residents such as housekeeping, meals and activities. Although residents of our independent living facilities generally do not require daily living assistance, they may obtain services such as bathing, eating and dressing. In contrast, assisted living facilities provide services to aid in activities of daily living, such as bathing, meals, security, transportation, recreation, medication supervision and limited therapeutic programs. Certain of our assisted living facilities offer more advanced levels of personal care for residents with Alzheimer's disease or other forms of dementia, depending upon local regulation. More intensive medical needs of the resident are often met within assisted living facilities by home health providers, close coordination with the resident's physician and skilled nursing facilities.

Seniors housing communities are subject to relatively few, if any, federal regulations. Instead, to the extent they are regulated, the regulation is conducted mainly by state and local laws which govern the licensing of beds, the provision of services, staffing requirements and other operational matters. However, these state laws vary greatly from one state to another.

The recent increase in the number of seniors housing communities around the country has attracted the attention of various federal agencies which believe there should be more federal regulation of these facilities. To date, Congress has deferred to state regulation of seniors housing communities. As a result of the increased federal scrutiny along with the rapid increase in the number of these facilities, some states have revised and strengthened their regulation of seniors housing communities. More states are expected to do the same in the future.

Skilled Nursing Facilities. The operators of our skilled nursing facilities generally are licensed on an annual or bi-annual basis and certified annually for participation in the Medicare and Medicaid programs through various regulatory agencies which determine compliance with federal, state and local laws. These legal requirements relate to the quality of the nursing care provided, qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment and continuing compliance with the laws and regulations governing the operation of nursing facilities. A loss of licensure or certification could adversely affect a nursing facility's ability to receive payments from the Medicare and Medicaid programs, which, in turn, could adversely impact the operator's ability to make rental payments under its leases with us.

Hospitals. Substantially all of our hospitals are operated as long-term acute care hospitals, which are hospitals that have a Medicare average length of stay greater than 25 days. Our hospitals are freestanding facilities, and we do not own any hospitals within hospitals. In order to receive Medicare and Medicaid reimbursement, each hospital must meet the applicable conditions of participation set forth by the U.S. Department of Health and Human Services (HHS) relating to the type of hospital and its equipment, personnel and standard of medical care, as well as comply with state and local laws and regulations. Hospitals undergo periodic on-site licensure surveys, which generally are limited if the hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations or other recognized accreditation organizations. A loss of licensure or certification could adversely affect a hospital's ability to receive payments from the Medicare and Medicaid programs, which, in turn, could adversely impact the operator's ability to make rental payments under its leases with us.

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Any significant expansion in the number or type of, or a violation of any of, these federal, state or local laws and regulations could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which, in turn, could adversely impact their ability to make rental payments under, or otherwise comply with the terms of, their leases with us.

Certificates of Need

Some states require state approval for development and expansion of healthcare facilities and services, including findings of need for additional or expanded healthcare facilities or services. A CON is issued by a governmental agency with jurisdiction over healthcare facilities and is at times required for expansion of existing facilities, construction of new facilities, addition of beds, and acquisition of major items of equipment or introduction of new services. The CON rules and regulations may restrict an operator's ability to expand our properties in certain circumstances.

In the last several years, in response to mounting Medicaid budget deficits, many states have begun to tighten CON controls, including the imposition of moratoriums on new nursing facilities and hospitals. Some states have also increased controls over licensing and change-of-ownership rules.

In the event that any operator of our properties fails to make rental payments to us or to comply with the applicable healthcare regulations, and, in either case, the operator or its lenders fail to cure the default prior to the expiration of the applicable cure period, our ability to evict that operator and substitute another operator or operators may be materially delayed or limited by various state licensing, receivership, CON or other laws, as well as by Medicare and Medicaid change-of-ownership rules. Such delays and limitations could have a material adverse effect on our ability to collect rent, to obtain possession of leased properties, or otherwise to exercise remedies for tenant default. In addition, we may also incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings.

Fraud and Abuse

There are extensive federal and state laws and regulations prohibiting fraud and abuse in the healthcare industry, the violation of which could result in significant criminal and civil penalties that can materially affect the operators of our properties. The federal laws include:

The anti-kickback statute (Section 1128B(b) of the Social Security Act), which prohibits certain business practices and relationships that might affect the provision and cost of healthcare services reimbursable under Medicare, Medicaid and other federal healthcare programs, including the payment or receipt of remuneration for the referral of patients whose care will be paid by Medicare or other governmental programs.

The physician self-referral prohibition (Ethics in Patient Referral Act of 1989, commonly referred to as the Stark Law), which prohibits referrals by physicians of Medicare patients to providers of a broad range of designated healthcare services with which the physicians (or their immediate family members) or Medicaid have ownership interests or certain other financial arrangements.

The False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government (including the Medicare and Medicaid programs).

The Civil Monetary Penalties Law, which authorizes HHS to impose civil penalties administratively for fraudulent acts.

The Health Insurance Portability and Accountability Act of 1996 (commonly referred to as HIPAA), which among other things, protects the privacy and security of individually identifiable health information by limiting its use and disclosure. Sanctions for violating these federal laws include criminal and civil penalties that range from punitive sanctions, damage assessments, money penalties, imprisonment, denial of Medicare and Medicaid payments,

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and/or exclusion from the Medicare and Medicaid programs. These laws also impose an affirmative duty on operators to ensure that they do not employ or contract with persons excluded from the Medicare and other government programs.

Many states have adopted or are considering legislative proposals similar to the federal fraud and abuse laws, some of which extend beyond the Medicare and Medicaid programs to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of whether the service was reimbursed by Medicare or Medicaid. Many states have also adopted or are considering legislative proposals to increase patient protections, such as minimum staffing levels, criminal background checks, and limiting the use and disclosure of patient specific health information. These state laws also impose criminal and civil penalties similar to the federal laws.

In the ordinary course of their business, the operators of our properties have been and are subject regularly to inquiries, investigations and audits by federal and state agencies that oversee these laws and regulations. Increased funding through recent federal and state legislation has led to a dramatic increase in the number of investigations and enforcement actions over the past several years. Private enforcement of healthcare fraud also has increased due in large part to amendments to the civil False Claims Act in 1986 that were designed to encourage private individuals to sue on behalf of the government. These whistleblower suits by private individuals, known as qui tam relators, may be filed by almost anyone, including present and former patients or nurses and other employees. HIPAA also created a series of new healthcare-related crimes.

As federal and state budget pressures continue, federal and state administrative agencies may also continue to escalate investigation and enforcement efforts to eliminate waste and to control fraud and abuse in governmental healthcare programs. A violation of any of these federal and state fraud and abuse laws and regulations could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which could affect adversely their ability to make rental payments under, or otherwise comply with the terms of, their leases with us.

Healthcare Reform

Healthcare is one of the largest industries in the United States and continues to attract much legislative interest and public attention. In an effort to reduce federal spending on healthcare, in 1997 the federal government enacted the Balanced Budget Act (BBA), which contained extensive changes to the Medicare and Medicaid programs, including substantial Medicare reimbursement reductions for healthcare operations. For certain healthcare providers, including hospitals and skilled nursing facilities, implementation of the BBA resulted in more drastic reimbursement reductions than had been anticipated. In addition to its impact on Medicare, the BBA also afforded states more flexibility in administering their Medicaid plans, including the ability to shift most Medicaid enrollees into managed care plans without first obtaining a federal waiver.

The following key legislative and regulatory changes have been made to the BBA to provide some relief from the drastic reductions in Medicare and Medicaid reimbursement resulting from implementation of the BBA:

The Balanced Budget Refinement Act of 1999 (BBRA);

The Medicare, Medicaid, and State Child Health Insurance Program Benefits Improvement and Protection Act of 2000 (BIPA);

Beginning on October 1, 2003, the Centers for Medicare & Medicaid Services (CMS) instituted a one-time administrative fix to increase skilled nursing facility payment rates by 3.26%; and

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Medicare Modernization Act , sometimes referred to as the Drug Bill).

The Medicare and Medicaid programs, including payment levels and methods, are continually evolving and are less predictable following the enactment of BBA and the subsequent reform activities. We cannot assure you

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that future healthcare legislation or changes in the administration or implementation of governmental healthcare reimbursement programs will not have a material adverse effect on our operators' liquidity, financial condition or results of operations, which could adversely affect on their ability to make rental payments to us and which, in turn, could have a Material Adverse Effect on us.

Medicare Reimbursement; Long-Term Acute Care Hospitals

The BBA mandated the creation of a prospective payment system for long-term acute care hospitals (LTAC PPS), which became effective on October 1, 2002 for cost reporting periods commencing on or after October 1, 2002. Long-term acute care hospitals have transitioned or are currently transitioning to LTAC PPS, which classifies patients into distinct diagnostic groups based on clinical characteristics and expected resource needs.

Under LTAC PPS, long-term acute care hospitals are reimbursed on a predetermined rate rather than on a reasonable cost basis that reflects costs incurred. LTAC PPS requires payment for a Medicare beneficiary at a predetermined, per discharge amount for each defined patient category (called Long-Term Care Diagnosis Related Groups or LTC-DRGs), adjusted for differences in area wage levels.

Updates to the LTAC PPS payment rates are published annually for the long-term acute care hospital rate year (July 1 through June 30). However, annual updates to the LTAC PPS classification system and its relative weighting system (LTC-DRGs) will continue to coincide with the federal fiscal year (October 1 to September 30) as with the prospective payment system for short-term acute care hospitals (DRGs). These updates are regulatorily established each year.

On May 12, 2006, CMS published its final rule updating LTAC PPS payment rates for the 2007 rate year (July 1, 2006 through June 30, 2007). The rule eliminated the annual market basket adjustment to Medicare payments for long-term acute care hospitals as of July 1, 2006. The rule also added new restrictions on payments for short-stay outlier cases, made adjustments to the labor portion of the federal rate and increased the short-stay outlier fixed loss threshold. CMS estimated that the combined effective decrease in rate year 2007 Medicare revenues for long-term acute care hospitals would be a nominal 3.7% on the total historical patient mix and volume. In addition, the final rule extended CMS's authority, set to expire on October 1, 2006, to impose a one-time prospective budget neutrality adjustment to LTAC rates until July 1, 2008.

On August 18, 2006, as part of its annual hospital inpatient prospective payment system rulemaking, CMS published its final rule updating the LTC-DRG categorization system for LTAC PPS for the 2007 federal fiscal year (October 1, 2006 through September 30, 2007). In the final rule, CMS, among other things, revised the relative weights for each LTC-DRG used to estimate the resource needs of patients classified in each LTC-DRG. CMS estimated that the combined effect of these changes would result in an aggregate decrease in federal fiscal year 2007 Medicare revenues for long-term acute care hospitals of approximately 1.3%.

On December 26, 2006, CMS released a report from Research Triangle Institute (RTI) regarding the feasibility of implementing the recommendations made by the Medicare Payment Advisory Commission (MedPac) in June 2004 for the establishment of facility and patient criteria for long-term acute care hospitals and for an expanded role for Medicare's Quality Improvement Organizations (QIOs) in monitoring compliance with the new criteria. CMS is expected to comment further on the RTI study when it releases its proposed rule on hospital inpatient prospective payment system rates for the 2008 rate year in April 2007.

On January 25, 2007, CMS released a pre-publication proposed rule proposing an increase of 0.71% in annual payment rates for the 2008 rate year (July 1, 2007 through June 30, 2008). In addition, CMS proposed: (1) revisions to payment methodologies impacting short-stay outliers, reducing payments by 0.9%; (2) adjustments to the wage index component of the federal payment, which CMS projects will reduce payments by 0.5%; and (3) an extension of the policy known as the 25 percent rule to all long-term acute care hospitals,

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which CMS projects will reduce payments by 2.2%. CMS is also proposing that the annual update to the LTC-DRGs would be done in a budget neutral manner, and, therefore, the estimated aggregate LTAC PPS payments would be unaffected by the annual recalibration of LTC-DRGs. Overall, CMS estimates that the proposed rule will result in a decrease in payments to all Medicare-certified long-term acute care hospitals of 2.9%. The proposed rule is subject to a 60-day comment period.

We cannot assure you that future updates to the LTAC PPS system or Medicare reimbursement for long-term acute care hospitals will not materially adversely impact our operators, which, in turn, could have a Material Adverse Effect on us. See *Risks Arising from Our Business*. Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants included in Item 1A of this Annual Report on Form 10-K.

Medicare Reimbursement; Skilled Nursing Facilities

BBA established a prospective payment system for skilled nursing facilities (SNF PPS) offering Part A covered services. Under the SNF PPS, payment amounts are based upon classifications determined through assessments of individual Medicare patients in the skilled nursing facility, rather than on the facility's reasonable costs. The payments received under the SNF PPS are intended generally to cover all inpatient services for Medicare patients, including routine nursing care, most capital-related costs associated with the inpatient stay, and ancillary services, such as respiratory therapy, occupational and physical therapy, speech therapy and certain covered drugs. Under the SNF PPS, per diem payments are made to nursing home facilities for each resident.

In response to widespread healthcare industry concern about the reductions in payments under BBA, the federal government enacted BBRA on November 29, 1999. BBRA increased the per diem reimbursement rates for certain high acuity patients by 20% starting April 1, 2000 and continuing until case mix refinements were implemented by CMS, as explained below. Under BBRA, outpatient rehabilitation therapy providers, including Part B nursing facilities, also received a two-year moratorium on the annual cap on the amount of physical, occupational and speech therapy provided to a patient, which moratorium was subsequently extended until December 31, 2005 pursuant to the Medicare Modernization Act. On January 1, 2006, these therapy limitations went into effect until the Deficit Reduction Act (DRA) was enacted. This new law retroactively established an exception process for the payment of all claims above the limits when such services are medically necessary. Under the rule published by CMS on August 18, 2006 described above, the annual cap on Medicare part B reimbursement for physical therapy and speech-language pathology services and the separate annual cap on occupational therapy were lifted for those patients who can demonstrate medical necessity. On December 20, 2006, the President signed into law the Tax Relief and Health Care Act of 2006 § 201, Pub. L. No. 109-432, which, among other things, extended the DRA process for obtaining relief from the therapy caps through December 31, 2007.

In addition, under CMS's August 18, 2006 rule, reimbursement of uncollectible Medicare coinsurance amounts for all beneficiaries (other than beneficiaries of both Medicare and Medicaid) is reduced from 100% to 70% for skilled nursing facility cost reporting periods beginning on or after October 1, 2005. CMS estimates that the change in treatment of bad debt will result in a decrease in payments to skilled nursing facilities of \$490 million over the five-year period from federal fiscal year 2006 to 2010. The rule also includes various options for classifying and weighting patients transferred to a skilled nursing facility after a hospital stay less than the mean length of stay associated with that particular diagnosis-related group. This change in methodology could affect skilled nursing facility admissions, although we currently cannot predict what impact it will have on the liquidity or profitability of our skilled nursing facility operators.

On August 4, 2005, CMS published its final rule under SNF PPS for the 2006 federal fiscal year (October 1, 2005 through September 30, 2006). Pursuant to the rule, CMS, among other things, refined the resource utilization groups (RUGs) used to determine the daily payment for beneficiaries in skilled nursing facilities by adding nine new payment categories. The result of this refinement, which became effective on January 1, 2006, was to eliminate the temporary add-on payments that Congress enacted as part of the BBRA. CMS also increased

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the case mix index adjustment for all of the RUGs categories and implemented a market basket increase of 3%, effective October 1, 2005. CMS projected the overall effect of these changes to be a 0.1% increase in aggregate skilled nursing facility Medicare payments in federal fiscal year 2006, but within this aggregate CMS expected some facilities to have modest decreases and some to have modest increases.

Although CMS has updated SNF PPS payment rates in the past through annual rulemaking, for federal fiscal year 2007, CMS issued a guidance that payment rates under Medicare part A will increase by 3.1% beginning October 1, 2006. We cannot assure you that the payment rates under Medicare part A will not be changed by Congress or as to the extent of any such changes.

On November 1, 2006, the Secretary of Health and Human Services placed on public display his five-year review and update to the Medicare physician fee schedule entitled: Medicare Program; Revisions to Payment Policies, Five-Year Review of Work Relative Value Units, Changes to the Practice Expense Methodology Under the Physician Fee Schedule, and Other Changes to Payment Under Part B; Revisions to the Payment Policies of Ambulance Services Under the Fee Schedule for Ambulance Services; and Ambulance Inflation Factor Update for CY 2007. This final rule with a comment period was scheduled to be effective on January 1, 2007. The reduction in fees for physician and therapy services was overturned on December 20, 2006, when President Bush signed into law the Tax Relief and Health Care Act of 2006, which, among other things, reduced the overall payment reduction of 5% to zero.

We cannot assure you that future updates to the SNF PPS system, therapy services or Medicare reimbursement for skilled nursing facilities will not materially adversely impact our operators, which, in turn, could have a Material Adverse Effect on us. See *Risks Arising from Our Business*. Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants included in Item 1A of this Annual Report on Form 10-K.

Medicaid Reimbursement; Skilled Nursing Facilities

Approximately two-thirds of all nursing home residents are dependent on Medicaid. Medicaid reimbursement rates, however, typically are less than the amounts charged by the operators of our properties. BBA repealed the Boren Amendment federal payment standard for Medicaid payments to hospitals and skilled nursing facilities effective October 1, 1997, giving states greater latitude in setting payment rates for these providers. Furthermore, federal legislation restricts a skilled nursing facility operator's ability to withdraw from the Medicaid program by restricting the eviction or transfer of Medicaid residents.

For the last several years, many states have announced actual or potential budget shortfalls. As a result of these budget shortfalls, many states have implemented, are implementing or considering implementing freezes or cuts in Medicaid rates paid to providers, including hospitals and skilled nursing facilities. Changes to Medicaid eligibility criteria are also possible thereby reducing the number of beneficiaries eligible to have their medical care reimbursed by government sources.

In the DRA, Congress made changes to the Medicaid program that are estimated to result in \$10 billion in savings to the federal government over the next five years primarily through the accounting practices some states use to calculate their matched payments and revising the qualifications for individuals who are eligible for Medicaid benefits. The changes made by the rule published by CMS on August 18, 2006 described above are also anticipated to reduce Medicaid payments to skilled nursing facility operators in the future. In addition, as part of the Tax Relief and Health Care Act of 2006, Congress reduced the ceiling on taxes that states may impose on healthcare providers and which would qualify for federal financial participation under Medicaid by 0.5%, from 6% to 5.5%. Nationally, it is anticipated that this reduction should have a negligible effect, affecting only those states with taxes in excess of 5.5%. We have not yet ascertained the impact of this reduction on our skilled nursing facility operators.

At this time, it is not possible to predict whether significant Medicaid rate freezes or cuts or other program changes will be adopted and if so, by how many states or whether the U.S. government will revoke, reduce or

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stop approving provider taxes that have the effect of increasing Medicaid payments to the states, or the impact of such actions on our operators. However, severe and widespread Medicaid rate cuts or freezes could have a material adverse effect on our skilled nursing facility operators, which, in turn, could have a Material Adverse Effect on us.

Nursing Home Quality Initiative

In 2002, HHS launched the Nursing Home Quality Initiative program. This program, which is designed to provide consumers with comparative information about nursing home quality measures, rates nursing homes on various quality of care indicators. Since 2002, investigative and enforcement activities regarding nursing home quality compliance has intensified both on the federal and state administrative levels.

If the operators of certain of our properties are unable to achieve quality of care ratings that are comparable or superior to those of their competitors, patients may choose alternate facilities, which could cause operating revenues to decline. In the event the financial condition or operating revenues of these operators are adversely affected, the operators' ability to make rental payments to us could be adversely affected, which, in turn, could have a Material Adverse Effect on us.

Environmental Regulation

As an owner of real property, we are subject to various federal, state and local laws and regulations regarding environmental, health and safety matters. These laws and regulations address, among other things, asbestos, polychlorinated biphenyls, fuel oil management, wastewater discharges, air emissions, radioactive materials, medical wastes, and hazardous wastes. In certain cases, the costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. For example, although we do not generally operate our properties, we may be held jointly and severally liable for costs relating to the investigation and cleanup of any property from which there is or has been a release or threatened release of a hazardous or toxic substance and any other affected properties, regardless of whether we knew of or caused the release. In addition to these costs, which are typically not limited by law or regulation and could exceed the property's value, we could be liable for certain other costs, including governmental fines and injuries to persons or property. See *Risks Arising from Our Business*. If any of our properties are found to be contaminated, or if we become involved in any environmental disputes, we could incur substantial liabilities and costs included in Item 1A of this Annual Report on Form 10-K.

We are generally indemnified by the current operators of our properties for contamination caused by those operators. For example, under the Kindred Master Leases, Kindred has agreed to indemnify us against any environmental claims (including penalties and clean-up costs) resulting from any condition arising in, on or under, or relating to, the leased properties at any time on or after the lease commencement date for the applicable leased property and from any condition permitted to deteriorate on or after such date (including as a result of migration from adjacent properties not owned or operated by us or any of our affiliates other than Kindred and its direct affiliates). However, we cannot assure you that Kindred or another operator will have the financial capability or the willingness to satisfy any such environmental claims, and in the event Kindred or another operator is unable or unwilling to do so, we may be required to satisfy the claims. See *Risks Arising from Our Business*. We are dependent on Kindred and Brookdale Senior Living; Kindred's or Brookdale Senior Living's inability or unwillingness to satisfy its obligations under its agreements with us could significantly harm us and our ability to service our indebtedness and other obligations and to make distributions to our stockholders, as required for us to continue to qualify as a REIT included in Item 1A of this Annual Report on Form 10-K. We have also agreed to indemnify Kindred and certain of our other operators against any environmental claims (including penalties and clean-up costs) resulting from any condition arising on or under, or relating to, the leased properties at any time before the lease commencement date for the applicable leased property.

We did not make any material capital expenditures in connection with these environmental, health, and safety laws, ordinances and regulations in 2006 and do not expect that we will have to make any such material capital expenditures during 2007.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion of Certain U.S. Federal Income Tax Considerations is not exhaustive of all possible tax considerations and is not tax advice. Moreover, this summary does not deal with all tax aspects that might be relevant to a particular stockholder in light of such stockholder's circumstances, nor does it deal with particular types of stockholders that are subject to special treatment under the Code, such as insurance companies, financial institutions and broker-dealers. The Code provisions governing the federal income tax treatment of REITs are highly technical and complex, and this summary is qualified in its entirety by the applicable Code provisions, rules and Treasury regulations promulgated thereunder, and administrative and judicial interpretations thereof. The following discussion is based on current law, which could be changed at any time, possibly retroactively.

Federal Income Taxation of Ventas

We elected REIT status beginning with the year ended December 31, 1999. Beginning with the 1999 tax year, we believe that we have satisfied the requirements to qualify as a REIT, and we intend to continue to qualify as a REIT for federal income tax purposes. If we continue to qualify for taxation as a REIT, we generally will not be subject to federal income tax on net income that we currently distribute to stockholders. This treatment substantially eliminates the double taxation (i.e., taxation at both the corporate and stockholder levels) that generally results from investment in a corporation.

Notwithstanding our qualification as a REIT, we will be subject to federal income tax on any undistributed taxable income, including undistributed net capital gains at regular corporate rates. In addition, we will be subject to a 4% excise tax if we do not satisfy specific REIT distribution requirements. See Requirements for Qualification as a REIT Annual Distribution Requirements. Under certain circumstances, we may be subject to the alternative minimum tax on our undistributed items of tax preference. If we have (i) net income from the sale or other disposition of foreclosure property (see below) that is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on such income. See Requirements for Qualification as a REIT Asset Tests. In addition, if we have net income from prohibited transactions (which are, in general, certain sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business), that income will be subject to a 100% tax.

We may also be subject to Built-in Gains Tax on any appreciated asset that we own or acquire that was previously owned by a C corporation (i.e., a corporation generally subject to full corporate level tax). If we dispose of any of these assets and recognize gain on the disposition of such asset during the ten-year period immediately after the assets were owned by a C corporation (either prior to our REIT election, through stock acquisition or merger), then we generally will be subject to regular corporate income tax on the gain equal to the lower of (i) the recognized gain at the time of the disposition or (ii) the built-in gain in that asset as of the date it became a REIT asset. In connection with the sale of any assets, all or a portion of such gain could be treated as ordinary income instead of capital gain and be subject to taxation and/or the minimum REIT distribution requirements.

In addition, if we should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below) and nonetheless have maintained our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on the income attributable to the greater of the amount by which we failed the 75% or 95% tests (or, for our 2001 through 2004 taxable years, a 90% test in lieu of the 95% test), multiplied by a fraction intended to reflect our profitability. Further, if we were to violate one or more of the REIT asset tests (as discussed below) under certain circumstances, but the violation was due to reasonable cause and not willful neglect and we were to take certain remedial actions, we may avoid a loss of our REIT status by, among other things, paying a tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying asset during a specified period. In addition, if we should fail to satisfy one or more requirements for REIT qualification, other than the 75% and 95% gross income tests and

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other than the assets test, but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we may be subject to a \$50,000 penalty for each failure. Finally, we will incur a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arms -length basis.

See Requirements for Qualification as a REIT below for other circumstances in which we may be required to pay federal taxes.

Requirements for Qualification as a REIT

To continue to qualify as a REIT, we must continue to meet the requirements discussed below, relating to our organization, sources of income, nature of assets and distributions of income to stockholders.

Organizational Requirements

The Code defines a REIT as a corporation, trust or association: (i) that is managed by one or more directors or trustees; (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest; (iii) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code; (iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year (the 100 Shareholder Rule); (vi) not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of each taxable year (the 5/50 Rule); (vii) that makes an election to be a REIT (or has made such election for a previous taxable year) and satisfies all relevant filing and other administrative requirements established by the Internal Revenue Service (IRS) that must be met in order to elect and to maintain REIT status; (viii) that uses a calendar year for federal income tax purposes; and (ix) that meets certain other tests, described below, regarding the nature of its income and assets.

We believe, but we cannot assure you, that we have satisfied and will continue to satisfy the organizational requirements. In order to prevent a concentration of ownership of our stock that would cause us to fail the 5/50 Rule or the 100 Shareholder Rule, we have placed certain restrictions on the transfer of our shares that are intended to prevent further concentration of share ownership. However, such restrictions may not prevent us from failing to meet these requirements, and thereby failing to qualify as a REIT.

In addition, to qualify as a REIT, a corporation may not have (as of the end of the taxable year) any earnings and profits that were accumulated in periods before it elected REIT status. We believe that we have not had any accumulated earnings and profits that are attributable to non-REIT periods, although the IRS is entitled to challenge that determination.

Gross Income Tests

To continue to qualify as a REIT, we must satisfy two annual gross income requirements. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property (including pledges of equity interest in certain entities holding real property and also including rents from real property (as defined in the Code)) and, in certain circumstances, interest on certain types of temporary investment income. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property or temporary investments, dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing.

We believe, but we cannot assure you, that we have been and will continue to be in compliance with the gross income tests. If we fail to satisfy one or both gross income tests for any taxable year, we may nevertheless

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qualify as a REIT for the year under certain relief provisions of the Code. If we were eligible to qualify under the relief provisions, a 100% tax would be imposed with respect to the income exceeding one or both of the gross income tests.

If we fail to satisfy one or both of the gross income tests and the relief provisions for any year, we will no longer qualify as a REIT. If we lose our REIT status, it would have a Material Adverse Effect on us.

Asset Tests

At the close of each quarter of our taxable year, we must satisfy the following tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by cash or cash items (including certain receivables), government securities, real estate assets (including interest in real property and in mortgages on real property and shares in other qualifying REITs) or, in cases where we raise new capital through stock or long-term (maturity of at least five years) debt offerings, temporary investments in stock or debt instruments during the one-year period following our receipt of such capital (the 75% asset test). Second, of the investments not meeting the requirements of the 75% asset test, the value of any one issuer's debt and equity securities owned by us (other than our interest in any entity classified as a partnership for federal income tax purposes, the stock of a taxable REIT subsidiary (as defined below) or the stock of a qualified REIT subsidiary) may not exceed 5% of the value of our total assets (the 5% asset test), and we may not own more than 10% of any one issuer's outstanding voting securities (the 10% voting securities test) or 10% of the value of any one issuer's outstanding securities, subject to limited safe harbor exceptions (the 10% value test). In addition, no more than 20% of the value of our assets can be represented by securities of taxable REIT subsidiaries.

If we fail to satisfy the asset tests at the end of any quarter other than our first quarter, we may nevertheless continue to qualify as a REIT and maintain our REIT status if (i) we satisfied all of the asset tests at the close of the preceding calendar quarter and (ii) the discrepancy between the value of our assets and the asset test requirements arose from changes in the market values of our assets and was not wholly or partly caused by an acquisition of nonqualifying assets.

Furthermore, if we fail any of the asset tests discussed above at the end of any quarter without curing such failure within 30 days after the end of such quarter, we would fail to qualify as a REIT, unless we were to qualify under certain relief provisions enacted as part of the American Jobs Creation Act of 2004. Under one of these relief provisions, if we were to fail the 5% asset test, the 10% voting securities test or the 10% value test, we nevertheless would continue to qualify as a REIT if the failure was due to the ownership of assets having a total value not exceeding the lesser of 1% of our assets at the end of the relevant quarter or \$10 million, and we were to dispose of such assets (or otherwise meet such asset tests) within six months after the end of the quarter in which the failure was identified. If we were to fail to meet any of the REIT asset tests for a particular quarter, but we did not qualify for the relief for *de minimis* failures that is described in the preceding sentence, then we would be deemed to have satisfied the relevant asset test if: (i) following our identification of the failure, we were to file a schedule with a description of each asset that caused the failure; (ii) the failure was due to reasonable cause and not willful neglect; (iii) we were to dispose of the non-qualifying asset (or otherwise meet the relevant asset test) within six months after the last day of the quarter in which the failure was identified; and (iv) we were to pay a penalty tax equal to the greater of \$50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying asset during the period beginning on the first date of the failure and ending on the date we dispose of the asset (or otherwise cure the asset test failure). It is not possible to predict, however, whether in all circumstances we would be entitled to the benefit of these relief provisions. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take such other actions as may be required to comply with those tests.

We believe, but we cannot assure you, that we have been and will continue to be in compliance with the 75% asset test, the 10% voting securities test, the 10% value test and the 5% asset test. If we fail to satisfy any of these tests, we would lose our REIT status, which would have a Material Adverse Effect on us.

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Foreclosure Property

The foreclosure property rules permit us (by our election) to foreclose or repossess properties without being disqualified as a result of receiving income that does not qualify under the gross income tests; however, a corporate tax is imposed upon such net non-qualifying income from foreclosure property. Detailed rules specify the calculation of the tax, and the after-tax amount would increase the dividends we would be required to distribute to stockholders each year. See *Annual Distribution Requirements* below.

Foreclosure property treatment will end on the first day on which we enter into a lease of the property that will give rise to income that is not good REIT income under Section 856(c)(3) of the Code. In addition, foreclosure property treatment will end if any construction takes place on the property (other than completion of a building, or other improvement more than 10% complete before default became imminent). Foreclosure property treatment is available for an initial period of three years and may be extended up to six years. Foreclosure property treatment for qualified healthcare property is available for an initial period of two years and may be extended up to six years.

Taxable REIT Subsidiaries

We are permitted to own up to 100% of a taxable REIT subsidiary or TRS. A TRS is a corporation subject to tax as a regular C corporation. Generally, a TRS can own assets that cannot be owned by a REIT and can perform otherwise impermissible tenant services (excluding the direct or indirect operation or management of a lodging or healthcare facility) which would otherwise disqualify the REIT's rental income under the REIT income tests. There are certain limits on the ability of a TRS to deduct interest payments made to us. In addition, we will be obligated to pay a 100% penalty tax on some payments that we receive or on certain expenses deducted by the TRS if the economic arrangements between the REIT, the REIT's tenants and the TRS are not comparable to similar arrangements among unrelated parties.

Annual Distribution Requirements

In order to be taxed as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (i) the sum of (A) 90% of our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain) and (B) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if (i) declared before we timely file our tax return for such year, (ii) paid on or before the first regular dividend payment after such declaration, and (iii) we elect on our federal income tax return for the prior year to have a specified amount of the subsequent dividend as treated as paid in the prior year. To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular capital gains and ordinary corporate tax rates except to the extent of net operating loss or capital loss carryforwards. If any taxes are paid in connection with the Built-in Gains Tax rules, these taxes will be deductible in computing REIT taxable income. Furthermore, if we fail to distribute during each calendar year at least the sum of (i) 85% of our REIT ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year (other than long-term capital gain we elect to retain and treat as having been distributed to stockholders), and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of such required distribution over the amounts actually distributed.

We believe, but we cannot assure you, that we have satisfied the annual distribution requirements for the year of our REIT election and each year thereafter. Although we intend to continue meeting the annual distribution requirements to qualify as a REIT for federal income tax purposes for the year ended December 31, 2006 and subsequent years, it is possible that economic, market, legal, tax or other considerations may limit our ability to meet such requirements. As a result, if we were not able to meet the annual distribution requirement, we would fail to qualify as a REIT.

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Failure to Continue to Qualify

If we fail to satisfy one or more requirements for REIT qualification, other than an asset or income test violation of a type for which relief is otherwise available as described above, we would retain our REIT qualification if the failure was due to reasonable cause and not willful neglect, and if we were to pay a penalty of \$50,000 for each such failure. It is not possible to predict whether in all circumstances we would be entitled to the benefit of this relief provision.

If our election to be taxed as a REIT is revoked or terminated (e.g., due to a failure to meet the REIT qualification tests) and no relief provisions were to apply, we would be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates except to the extent of net operating loss and capital loss carryforwards. Distributions to stockholders would not be deductible by us, nor would they be required to be made. To the extent of current and accumulated earnings and profits, all distributions to stockholders would be taxable as ordinary income, and, subject to certain limitations in the Code, corporate stockholders may be eligible for the dividends received deduction. In addition, we would be prohibited from re-electing REIT status for the four taxable years following the year during which we ceased to qualify as a REIT, unless certain relief provisions of the Code applied. It is impossible to predict whether we would be entitled to such statutory relief.

Federal Income Taxation of U.S. Stockholders

As used herein, the term **U.S. Stockholder** means a holder of our common stock that for U.S. federal income tax purposes is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) any trust with respect to which (A) a U.S. court is able to exercise primary supervision over the administration of such trust, or (B) an election has been made under applicable Treasury Regulations to retain its pre-August 20, 1996 classification as a U.S. person. If a partnership holds our common stock, the tax treatment of a partner will generally depend on the status of the partner and on the activities of the partnership. Partners of partnerships holding our stock should consult their tax advisors.

As long as we qualify as a REIT, distributions made to our taxable U.S. Stockholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) generally will be taken into account by such U.S. Stockholders as ordinary income and will not be eligible for the capital gains tax rate (i.e., qualified dividends rate) generally available to individuals or for the dividends received deduction generally available to corporations. Distributions that are designated as capital gain dividends will be taxed as a capital gain (to the extent such distributions do not exceed our actual net capital gain for the taxable year) without regard to the period for which the stockholder has held its shares. The tax rates applicable to such capital gains are discussed below. Distributions in excess of current and accumulated earnings and profits will not be taxable to a stockholder to the extent that they do not exceed the adjusted basis of the stockholder's shares, but rather will reduce the adjusted basis of those shares. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of a stockholder's shares, such distributions will be included in income as capital gains. The tax rate applicable to such capital gain will depend on the stockholder's holding period for the shares. In addition, any distribution declared by us in October, November or December of any year and payable to a stockholder of record on a specified date in any such month shall be treated as both paid by us and received by the stockholder on December 31 of such year, provided that the distribution is actually paid by us during January of the following calendar year.

We may elect to treat all or a part of our undistributed net capital gain as if it had been distributed to our stockholders (including for purposes of the 4% excise tax discussed above under **Requirements for Qualification as a REIT Annual Distribution Requirements**). If we make such an election, our stockholders would be required to include in their income as long-term capital gain their proportionate share of our undistributed net capital gain, as designated by us. Each such stockholder would be deemed to have paid its

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proportionate share of the income tax imposed on us with respect to such undistributed net capital gain, and this amount would be credited or refunded to the stockholder. In addition, the tax basis of the stockholder's shares would be increased by its proportionate share of undistributed net capital gains included in its income, less its proportionate share of the income tax imposed on us with respect to such gains.

Stockholders may not include in their individual income tax returns any of our net operating losses or net capital losses. Instead, such losses would be carried over by us for potential offset against our future income (subject to certain limitations). Taxable distributions from us and gain from the disposition of our common stock will not be treated as passive activity income, and, therefore, stockholders generally will not be able to apply any passive activity losses (such as losses from certain types of limited partnerships in which the stockholder is a limited partner) against such income. In addition, taxable distributions from us generally will be treated as investment income for purposes of the investment interest limitations.

We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital and capital gain. To the extent a portion of the distribution is designated as a capital gain dividend, we will notify stockholders as to the portion that is a 15% rate gain distribution and the portion that is an unrecaptured Section 1250 distribution. A 15% rate gain distribution is a capital gain distribution to domestic stockholders that are individuals, estates or trusts at a maximum of 15%. An unrecaptured Section 1250 gain distribution would be taxable to taxable domestic stockholders that are individuals, estates or trusts at a maximum rate of 25%.

Treatment of Tax-Exempt Stockholders

Tax-exempt organizations, including qualified employee pension and profit sharing trusts and individual retirement accounts (collectively, Exempt Organizations), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income (UBTI). While many investments in real estate generate UBTI, the IRS has issued a published ruling that dividend distributions by a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on that ruling, and subject to the exceptions discussed below, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of our common stock with debt, a portion of its income from us will constitute UBTI pursuant to the debt-financed property rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans that are exempt from taxation under paragraphs (7), (9), (17) and (20), respectively, of Section 501(c) of the Code are subject to different UBTI rules, which generally will require them to characterize distributions from us as UBTI. In addition, in certain circumstances, a pension trust that owns more than 10% of our stock is required to treat a percentage of the dividends from us as UBTI.

Special Tax Considerations for Non-U.S. Stockholders

The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign stockholders (collectively, Non-U.S. Stockholders) are complex, and the following is no more than a brief summary of those rules. Non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to their ownership of our common stock, including any reporting requirements.

For purposes of this discussion, the term Non-U.S. Stockholder does not include any foreign stockholder whose investment in our stock is effectively connected with the conduct of a trade or business in the United States. Such a foreign stockholder, in general, will be subject to U.S. federal income tax with respect to its investment in our stock in the same manner as a U.S. Stockholder is taxed (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In addition, a foreign corporation receiving income that is treated as effectively connected with a U.S. trade or business also

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may be subject to an additional 30% branch profits tax, unless an applicable tax treaty provides a lower rate or an exemption. Certain certification requirements must be satisfied in order for effectively connected income to be exempt from withholding.

Distributions to Non-U.S. Stockholders that are not attributable to gain from sales or exchanges by us of U.S. real property interests and are not designated by us as capital gain dividends (or deemed distributions of retained capital gains) will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions ordinarily will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. Distributions in excess of our current and accumulated earnings and profits will not be taxable to a stockholder to the extent that such distributions do not exceed the adjusted basis of the stockholder's shares, but rather will reduce the adjusted basis of those shares. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of a Non-U.S. Stockholder's shares, such distributions will give rise to tax liability if the Non-U.S. Stockholder would otherwise be subject to tax on any gain from the sale or disposition of its shares, as described below.

We expect to withhold U.S. tax at the rate of 30% on the gross amount of any dividends, other than dividends treated as attributable to gain from sales or exchanges of U.S. real property interests and capital gain dividends, paid to a Non-U.S. Stockholder, unless (i) a lower treaty rate applies and the required IRS Form W-8BEN evidencing eligibility for that reduced rate is filed with us or the appropriate withholding agent or (ii) the Non-U.S. Stockholder files an IRS Form W-8ECI or a successor form with us or the appropriate withholding agent properly claiming that the distributions are effectively connected with the Non-U.S. Stockholder's conduct of a U.S. trade or business.

For any year in which we qualify as a REIT, distributions to a Non-U.S. Stockholder that owns more than 5% of our shares and that are attributable to gain from sales or exchanges by us of U.S. real property interests will be taxed to a Non-U.S. Stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Under FIRPTA, distributions attributable to gain from sales of U.S. real property interests are taxed to a Non-U.S. Stockholder as if such gain were effectively connected with a U.S. business. Accordingly, a Non-U.S. Stockholder that owns more than 5% of our shares will be taxed at the normal capital gain rates applicable to a U.S. Stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Distributions subject to FIRPTA made to a Non-U.S. Stockholder that owns more than 5% of our shares also may be subject to 30% branch profits tax in the hands of a foreign corporate stockholder not entitled to treaty relief or exemption. Under FIRPTA, we are required to withhold 35% of any distribution to a Non-U.S. Stockholder that owns more than 5% of our shares which is or could be designated as a capital gain dividend. Thus, if we designate previously made distributions as capital gain dividends, subsequent distributions (up to the amount of such prior distributions) will be treated as capital gain dividends for purposes of FIRPTA withholding. This amount is creditable against the Non-U.S. Stockholder's FIRPTA tax liability. It should be noted that the 35% withholding tax rate on capital gain dividends paid to Non-U.S. Stockholders owning more than 5% of our shares is higher than the maximum rate on long-term capital gains of individuals. Capital gain dividends not attributable to gain on the sale or exchange of U.S. real property interests are not subject to U.S. taxation if there is no requirement of withholding.

If a Non-U.S. Stockholder does not own more than 5% of our shares during the tax year within which the distribution is received, the gain will not be considered to be effectively connected with a U.S. business. As such, a Non-U.S. Stockholder who does not own more than 5% of our shares would not be required to file a U.S. federal income tax return by receiving such a distribution. In this case, the distribution will be treated as a REIT dividend to that Non-U.S. Stockholder and taxed as a REIT dividend that is not a capital gain distribution as described above. In addition, the branch profits tax will not apply to the distribution.

For so long as our common stock continues to be regularly traded on an established securities market, the sale of such stock by any Non-U.S. Stockholder who is not a Five Percent Non-U.S. Stockholder (as defined below) generally will not be subject to U.S. federal income tax (unless the Non-U.S. Stockholder is a nonresident

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alien individual who was present in the United States for more than 182 days during the taxable year of the sale and certain other conditions apply, in which case such gain will be subject to a 30% tax on a gross basis). A Five Percent Non-U.S. Stockholder is a Non-U.S. Stockholder who, at some time during the five-year period preceding such sale or disposition, beneficially owned (including under certain attribution rules) more than 5% of the total fair market value of our common stock (as outstanding from time to time) or owned shares of another class of our stock that represented value greater than 5% of our common stock (measured at the time such shares were acquired).

In general, the sale or other taxable disposition of our common stock by a Five Percent Non-U.S. Stockholder also will not be subject to U.S. federal income tax if we are a domestically controlled REIT. A REIT is a domestically controlled REIT if, at all times during the five-year period preceding the relevant testing date, less than 50% in value of its shares is held directly or indirectly by Non-U.S. Stockholders (taking into account those persons required to include the REIT's dividends in income for U.S. federal income tax purposes). Although we believe that we currently qualify as a domestically controlled REIT because our common stock is publicly traded, we cannot assure you that we will qualify as a domestically controlled REIT at any time in the future. If we do not constitute a domestically controlled REIT, a Five Percent Non-U.S. Stockholder will be taxed in the same manner as a U.S. Stockholder with respect to gain on the sale of our common stock (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals).

Information Reporting Requirements and Backup Withholding Tax

We will report to our U.S. Stockholders and to the IRS the amount of distributions paid during each calendar year and distributions required to be treated as so paid during a calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding at the applicable rate (currently 28%) with respect to distributions paid unless such holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (ii) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. A stockholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. In addition, we may be required to withhold a portion of capital gain distributions to any stockholders who fail to certify their non-foreign status to us.

U.S. Stockholders should consult their own tax advisors regarding their qualifications for an exemption from backup withholding and the procedure for obtaining such an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. Stockholder will be allowed as a credit against the U.S. Stockholder's U.S. federal income tax liability and may entitle the U.S. Stockholder to a refund, provided that the required information is furnished timely to the IRS.

Backup withholding tax and information reporting generally will not apply to distributions paid to Non-U.S. Stockholders outside the United States that are treated as (i) dividends subject to the 30% (or lower treaty rate) withholding tax described above, (ii) capital gain dividends or (iii) distributions attributable to gain from the sale or exchange by us of U.S. real property interests. As a general matter, backup withholding and information reporting will not apply to a payment of the proceeds of a sale of our common stock by or through a foreign office of a foreign broker. Information reporting (but not backup withholding) will apply, however, to a payment of the proceeds of a sale of our common stock by a foreign office of a foreign broker that (i) is a U.S. person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or (iii) is a controlled foreign corporation for U.S. tax purposes, unless the broker has documentary evidence in its records that the holder is a Non-U.S. Stockholder and certain other conditions are satisfied, or the stockholder otherwise establishes an exemption. Payment to or through a U.S. office of a broker of the proceeds of a sale of our common stock is subject to both backup withholding and information reporting unless the stockholder certifies under penalties of perjury that the stockholder is a Non-U.S. Stockholder or otherwise establishes an exemption. A Non-U.S. Stockholder may obtain a refund of any amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS.

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Other Tax Considerations

We and our stockholders may be subject to state and local tax in states and localities in which we do business or own property. The tax treatment of us and our stockholders in those jurisdictions may differ from the federal income tax treatment described above. Consequently, stockholders should consult their own tax advisors regarding the effect of state and local tax laws on their ownership of shares of our common stock.

ITEM 1A. Risk Factors

RISK FACTORS

This section discusses the most significant factors that affect our business, operations and financial condition. It does not describe all risks and uncertainties applicable to us, our industry or ownership of our securities. If any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are not material, actually occur, we could be materially adversely affected. In that event, the value of our securities could decline.

We have grouped these risk factors into three general categories:

Risks arising from our business;

Risks arising from our capital structure; and

Risks arising from our status as a REIT.

Risks Arising from Our Business

We are dependent on Kindred and Brookdale Senior Living; Kindred's or Brookdale Senior Living's inability or unwillingness to satisfy its obligations under its agreements with us could significantly harm us and our ability to service our indebtedness and other obligations and to make distributions to our stockholders as required for us to continue to qualify as a REIT.

We are dependent on Kindred and Brookdale Senior Living in the following ways:

We lease a substantial portion of our properties to Kindred and subsidiaries of Brookdale Senior Living, and therefore Kindred and Brookdale Senior Living accounted for most of our total revenues in 2006 and 2005, and they are expected to continue to be significant sources of our revenues; and

Since the Kindred Master Leases and our leases with subsidiaries of Brookdale Senior Living are triple-net leases, we depend on Kindred and those subsidiaries to pay insurance, taxes, utilities and maintenance and repair expenses required in connection with the leased properties.

We cannot assure you that Kindred or Brookdale Senior Living will have sufficient assets, income, access to financing and insurance coverage to enable it to satisfy its obligations under its agreements with us. In addition, any failure by Kindred or Brookdale Senior Living to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to attract and retain patients and residents in its properties. Any inability or unwillingness by Kindred or Brookdale Senior Living to satisfy its obligations under its agreements with us or to effectively conduct its operations could have a Material Adverse Effect on us.

We may be unable to find another tenant or operator for our properties if we have to replace Kindred, subsidiaries of Brookdale Senior Living or any of our other tenants or operators.

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We may have to find another tenant or operator for the properties covered by one or more of the Kindred Master Leases or our leases with subsidiaries of Brookdale Senior Living or any of our other tenants or operators

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upon the expiration of the terms of the applicable lease or upon a default by Kindred or any of those subsidiaries, tenants or operators. During any period that we are attempting to locate one or more tenants or operators, there could be a decrease or cessation of rental payments on those properties. We cannot assure you that Kindred, subsidiaries of Brookdale Senior Living or any of our other tenants or operators will elect to renew their respective leases with us upon expiration of the terms thereof, nor can we assure you that we will be able to locate another suitable tenant or operator or, if we are successful in locating such a tenant/operator, that the rental payments from that new tenant or operator would not be significantly less than the existing rental payments. Our ability to locate another suitable tenant or operator may be significantly delayed or limited by various state licensing, receivership, CON or other laws, as well as by Medicare and Medicaid change-of-ownership rules. We also may incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings. Any such delays, limitations and expenses could materially delay or impact our ability to collect rent, to obtain possession of leased properties or otherwise to exercise remedies for tenant default and could have a Material Adverse Effect on us.

We may encounter certain risks when implementing our business strategy to pursue investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare-related assets.

We intend to continue to pursue investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare-related assets domestically and internationally, subject to the contractual restrictions contained in our revolving credit facility and the indentures governing our outstanding senior notes. Investments in and acquisitions of these properties entail general risks associated with any real estate investment, including risks that the investment will fail to perform in accordance with expectations, that the estimates of the cost of improvements necessary for acquired properties will prove inaccurate or that the tenant/operator will fail to meet performance expectations. In addition, investments in and acquisitions of properties outside the United States, would subject us to legal, economic and market risks associated with operating in foreign countries, such as currency and tax risks. Any new development projects that we pursue would also be subject to numerous risks, including risks of construction delays or cost overruns that may increase project costs, new project commencement risks such as receipt of zoning, occupancy and other required governmental approvals and permits and the risk of incurring development costs in connection with projects that are not pursued to completion. In addition, we may borrow to finance any investments in, and/or acquisitions or development of, seniors housing, healthcare-related and/or other properties, which would increase our leverage.

We compete for investment or acquisition opportunities with entities that have substantially greater financial resources than we do. Our ability to compete successfully for these opportunities is affected by many factors, including our cost of obtaining debt and equity capital at rates comparable to or better than our competitors. Competition generally may reduce the number of suitable investment or acquisition opportunities available to us and increase the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition or development activities. See Business Competition included in Item 1 of this Annual Report on Form 10-K. Even if we succeed in identifying and competing for investment or acquisition opportunities, these opportunities would subject us to the risk that the value of the properties or businesses we invest in or acquire could decrease substantially after such investment or acquisition, that we might be unable to accurately assess the value of properties or businesses that are not of the type we currently own or that the investment or acquisition would divert management's attention from our existing business, some or all of which could have a Material Adverse Effect on us.

Furthermore, as we continue to implement our business strategy to pursue investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare-related assets or businesses, we intend to increase the number of operators of our properties and, potentially, our business segments. We cannot assure you that we will have the capabilities to successfully monitor and manage a portfolio of properties with a growing number of operators and/or manage such businesses.

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Our investments are concentrated in seniors housing and healthcare-related properties, making us more vulnerable economically than if our investments were diversified.

We invest primarily in real estate in particular, seniors housing and healthcare-related properties. Accordingly, we are exposed to the risks inherent in concentrating investments in real estate, and these risks become even greater due to the fact that all of our investments are in properties used in the seniors housing or healthcare industries. A downturn in the real estate industry could adversely affect the value of our properties. A downturn in the seniors housing or healthcare industries could negatively impact our operators' ability to make rental payments to us, which, in turn, could have a Material Adverse Effect on us.

Furthermore, the healthcare industry is highly regulated, and changes in government regulation and reimbursement in the past have had material adverse consequences on the industry in general, which may not even have been contemplated by lawmakers and regulators. We cannot assure you that future changes in government regulation of healthcare will not have a material adverse effect on the healthcare industry, including our tenants/operators. Our ability to invest in non-seniors housing or non-healthcare-related properties is restricted by the terms of our revolving credit facility, so these adverse effects may be more pronounced than if we diversified our investments outside of real estate or outside of seniors housing or healthcare.

We may not complete the proposed acquisition of Sunrise REIT, and if we do, we may not be able to successfully integrate Sunrise REIT's operations or we may not realize the intended benefits of the Transaction, each of which could adversely affect our financial condition and results of operations.

It is possible that the proposed acquisition of Sunrise REIT may not be completed. The parties' obligations to complete the Transaction are subject to the satisfaction or waiver of specified conditions, some of which are beyond our control. For example, the Transaction is conditioned on the receipt of the required approval of Sunrise REIT's unitholders. If this approval is not received, the Transaction cannot be completed even if all of the other conditions are satisfied or waived. If we do not complete the proposed acquisition of Sunrise REIT for any reason, we will have incurred substantial costs related to the Transaction, such as legal, accounting and certain financial advisor fees, which must be paid even if the Transaction is not completed (although we will be entitled to receive a termination fee under certain circumstances).

Even if we complete the proposed acquisition of Sunrise REIT, however, we will be subject to a number of operating risks, including the risks that:

we may not effectively integrate the operations of Sunrise REIT;

the acquired properties may not perform as well as we anticipate due to various factors, such as disruptions caused by the integration of operations with us and changes in economic conditions;

the diversion of management attention to the integration of operations could have a negative impact on our existing business; and

we may experience greater than expected costs or difficulties relating to the integration of Sunrise REIT and/or may not realize the expected revenues and cost savings from the Transaction within the expected timeframe, if at all.

Certain of our tenants and operators, including Kindred, may be adversely affected by increasing healthcare regulation and enforcement.

We believe that the regulatory environment surrounding the long-term healthcare industry has intensified both in the amount and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers like Kindred.

The extensive federal, state and local laws and regulations affecting the healthcare industry include, but are not limited to, laws and regulations relating to licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, quality of care, patient rights, fraudulent

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or abusive behavior, and financial and other arrangements which may be entered into by healthcare providers. Federal and state governments have intensified enforcement policies, resulting in a significant increase in the number of inspections, citations of regulatory deficiencies and other regulatory sanctions, including terminations from the Medicare and Medicaid programs, bars on Medicare and Medicaid payments for new admissions, civil monetary penalties and even criminal penalties. See *Governmental Regulation Healthcare Regulation* included in Item 1 of this Annual Report on Form 10-K.

If Kindred or our other tenants and operators fail to comply with the extensive laws, regulations and other requirements applicable to their businesses, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, suffer civil and/or criminal penalties and/or be required to make significant changes to their operations. Kindred and our other tenants and operators also could be forced to expend considerable resources responding to an investigation or other enforcement action under applicable laws or regulations. In addition, Kindred could incur significant expenses in complying with a corporate integrity agreement that was part of its previous settlement with the federal government, and any failure to comply with that agreement could have a material adverse effect on its results of operations, financial condition and its ability to make rental payments to us, which, in turn, could have a Material Adverse Effect on us.

We are unable to predict the future course of federal, state and local regulation or legislation, including the Medicare and Medicaid statutes and regulations. Changes in the regulatory framework could have a material adverse effect on Kindred and our other tenants and operators, which, in turn, could have a Material Adverse Effect on us.

Changes in the reimbursement rates or methods of payment from third-party payors, including the Medicare and Medicaid programs, could have a material adverse effect on certain of our tenants and operators.

Kindred and certain of our other tenants and operators rely on reimbursement from third-party payors, including the Medicare and Medicaid programs, for substantially all of their revenues. There continue to be various federal and state legislative and regulatory proposals to implement cost-containment measures that limit payments to healthcare providers, such as the proposed rule issued by CMS on January 25, 2007 updating LTAC PPS payment rates for the 2008 rate year. See *Governmental Regulation Healthcare Regulation* included in Item 1 of this Annual Report on Form 10-K. In addition, private third-party payors have continued their efforts to control healthcare costs. We cannot assure you that adequate reimbursement levels will be available for services to be provided by Kindred and other tenants and operators which are currently being reimbursed by Medicare, Medicaid or private payors. Significant limits by governmental and private third-party payors on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the liquidity, financial condition and results of operations of Kindred and certain of our other tenants and operators, which, in turn, could have a Material Adverse Effect on us.

Significant legal actions could subject our operators to increased operating costs and substantial uninsured liabilities, which could materially adversely affect their liquidity, financial condition and results of operation.

Although claims and costs of professional liability insurance seem to be growing at a slower pace, our skilled nursing facility operators have experienced substantial increases in both the number and size of professional liability claims in recent years. In addition to large compensatory claims, plaintiffs' attorneys continue to seek significant punitive damages and attorneys' fees.

Due to the high level in the number and severity of professional liability claims against healthcare providers, the availability of professional liability insurance has been severely restricted and the premiums on such insurance coverage have increased dramatically. As a result, the insurance coverage of our operators might not cover all claims against them or continue to be available to them at a reasonable cost. If our operators are unable to maintain adequate insurance coverage or are required to pay punitive damages, they may be exposed to substantial liabilities.

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Kindred insures its professional liability risks in part through a wholly-owned, limited purpose insurance company. The limited purpose insurance company insures initial losses up to specified coverage levels per occurrence with no aggregate coverage limit. Coverage for losses in excess of those per occurrence levels is maintained through unaffiliated commercial insurance carriers up to an aggregate limit. The limited purpose insurance company then insures all claims in excess of the aggregate limit for the unaffiliated commercial insurance carriers. Kindred maintains general liability insurance and professional malpractice liability insurance in amounts and with deductibles which Kindred management has indicated that it believes are sufficient for its operations.

Operators that insure their professional liability risks through their own captive limited purpose entities generally estimate the future cost of professional liability through actuarial studies which rely primarily on historical data. However, due to the increase in the number and severity of professional claims against healthcare providers, these actuarial studies may underestimate the future cost of claims, and we cannot assure you that these operators' reserves for future claims will be adequate to cover the actual cost of those claims. If the actual cost of claims is significantly higher than the operators' reserves, it could have a material adverse effect on the operators' liquidity, financial condition and results of operation and on their ability to make rental payments to us, which, in turn, could have a Material Adverse Effect on us.

Our operators may be sued under a federal whistleblower statute.

Our operators who engage in business with the federal government may be sued under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry. See *Governmental Regulation Healthcare Regulation* included in Item 1 of this Annual Report on Form 10-K. These lawsuits can involve significant monetary damages and award bounties to private plaintiffs who successfully bring these suits. If any of these lawsuits were to be brought against our operators, such suits combined with increased operating costs and substantial uninsured liabilities could have a material adverse effect on the operators' liquidity, financial condition and results of operation and on their ability to make rental payments to us, which, in turn, could have a Material Adverse Effect on us.

If any of our properties are found to be contaminated, or if we become involved in any environmental disputes, we could incur substantial liabilities and costs.

Under federal and state environmental laws and regulations, a current or former owner of real property may be liable for costs related to the investigation, removal and remediation of hazardous or toxic substances or petroleum that are released from or are present at or under, or that are disposed of in connection with such property. Owners of real property may also face other environmental liabilities, including government fines and penalties imposed by regulatory authorities and damages for injuries to persons, property or natural resources. Environmental laws and regulations often impose liability without regard to whether the owner was aware of, or was responsible for, the presence, release or disposal of hazardous or toxic substances or petroleum. In certain circumstances, environmental liability may result from the activities of a current or former operator of the property. Although we are generally indemnified by the current operators of our properties for contamination caused by them, these indemnities may not adequately cover all environmental costs. See *Governmental Regulation Environmental Regulation* included in Item 1 of this Annual Report on Form 10-K.

We have assumed substantially all of Provident's liabilities, including contingent liabilities; if these liabilities are greater than expected, or if there are unknown Provident obligations, our business could be materially adversely affected.

As a result of the Provident acquisition, we have assumed substantially all of Provident's liabilities, including contingent liabilities to which Provident succeeded when it acquired the ownership interests in the properties that are currently leased to Brookdale and Alterra. We may learn additional information about Provident's business and liabilities that adversely affects us, such as:

liabilities for clean-up or remediation of undisclosed environmental conditions;

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unasserted claims of vendors or other persons dealing with Provident or the former property owners;

liabilities, whether or not incurred in the ordinary course of business, relating to periods prior to the Provident acquisition, including periods prior to Provident's acquisition of the Brookdale and Alterra properties;

claims for indemnification by general partners, directors, officers and others indemnified by Provident or the former property owners; and

liabilities for taxes relating to periods prior to the Provident acquisition, including taxes associated with the acquisition or prior ownership of the Brookdale and Alterra properties.

As a result, we cannot assure you that the Provident acquisition will be successful or will not, in fact, harm our business. Among other things, if Provident's liabilities are greater than expected, or if there are obligations of Provident of which we were not aware at the time we completed the acquisition, or if the Provident acquisition fails to qualify as a reorganization within the meaning of Section 368(a) of the Code, it could have a Material Adverse Effect on us.

Risks Arising from Our Capital Structure

We may become more leveraged.

As of December 31, 2006, we had approximately \$2.3 billion of indebtedness. Our revolving credit facility and the indentures governing our outstanding senior notes permit us to incur substantial additional debt, and we may borrow additional funds, which may include secured borrowings. A high level of indebtedness would require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, thereby reducing the funds available to implement our business strategy and to make distributions to stockholders. A high level of indebtedness could also have the following consequences:

Potential limits on our ability to adjust rapidly to changing market conditions and vulnerability in the event of a downturn in general economic conditions or in the real estate and/or healthcare industries;

Potential impairment of our ability to obtain additional financing for our business strategy; and

Potential downgrade in the rating of our debt securities by one or more rating agencies which could have the effect of, among other things, increasing our cost of borrowing.

We may be unable to raise additional capital necessary to consummate the proposed Sunrise REIT acquisition, to continue to implement our business plan and to meet our debt payments.

In order to consummate the proposed Sunrise REIT acquisition, to continue to implement our business plan and to meet our debt payments, we may need to raise additional capital. Although we expect to fund a portion of the acquisition through a fully committed bridge facility, composed of a \$1.0 billion senior interim loan and a \$600.0 million perpetual preferred stock issuance, we will be required to repay any amounts drawn on the loan within one year from the closing date. The amount of additional indebtedness we may incur is limited by the terms of our revolving credit facility and the indentures governing our outstanding senior notes. In addition, adverse economic conditions could cause the terms on which we are able to borrow additional funds to become unfavorable. In those circumstances, we may be required to raise additional equity in the capital markets or liquidate one or more investments in properties at times that may not permit us to realize the maximum return on those investments, which could result in adverse tax consequences to us. Moreover, certain healthcare regulations may constrain our ability to sell assets. We cannot assure you that we will be able to raise the necessary capital to consummate the proposed Sunrise REIT acquisition, to continue to implement our business plan or to meet our debt service obligations, and the failure to do so could have a Material Adverse Effect on us.

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We have now, and may have in the future, exposure to floating interest rates, which could have the effect of reducing our profitability.

We receive revenue primarily by leasing our assets under long-term triple-net leases in which the rental rate is generally fixed with annual rent escalations, subject to certain limitations. Certain of our debt obligations are floating rate obligations with interest rate and related payments that vary with the movement of LIBOR or other indexes. The generally fixed rate nature of our revenues and the variable rate nature of certain of our obligations create interest rate risk and can have the effect of reducing our profitability or making our lease and other revenue insufficient to meet our obligations. The amount of floating rate debt versus fixed rate debt we may incur is not limited.

Risks Arising from Our Status as a REIT

Loss of our status as a REIT would have significant adverse consequences to us and the value of our common stock.

If we lose our status as a REIT, we will face serious tax consequences that will substantially reduce the funds available for satisfying our obligations and for distribution to our stockholders for each of the years involved because:

We would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

We also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

Unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, all distributions to stockholders would continue to be treated as dividends to the extent of our current and accumulated earnings and profits, although corporate stockholders may be eligible for the dividends received deduction and individual stockholders may be eligible for taxation at the rates generally applicable to long-term capital gains (currently at a maximum rate of 15%) with respect to distributions. We would no longer be required to pay dividends to maintain REIT status.

As a result of all these factors, our failure to qualify as a REIT also could impair our ability to implement our business strategy and would adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to remain qualified as a REIT. In addition, new legislation, regulations, administrative interpretations or court decisions may adversely affect our investors or our ability to remain qualified as a REIT for tax purposes. Although we believe that we qualify as a REIT, we cannot assure you that we will continue to qualify or remain qualified as a REIT for tax purposes.

See "Certain U.S. Federal Income Tax Considerations," "Federal Income Taxation of Ventas," and "Requirements for Qualification as a REIT" included in Item 1 of this Annual Report on Form 10-K.

The 90% distribution requirement will decrease our liquidity and may limit our ability to engage in otherwise beneficial transactions.

To comply with the 90% distribution requirement applicable to REITs and to avoid the nondeductible excise tax, we must make distributions to our stockholders. See "Certain U.S. Federal Income Tax Considerations," "Requirements for Qualification as a REIT," "Annual Distribution Requirements" included in Item 1 of this Annual Report on Form 10-K. The indentures governing our outstanding senior notes permit us to make annual

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distributions to our stockholders in an amount equal to the minimum amount necessary to maintain our REIT status so long as the ratio of our Debt to Adjusted Total Assets (as each term is defined in the indentures) does not exceed 60% and to make additional distributions if we pass certain other financial tests. However, distributions may limit our ability to rely upon rental payments from our properties or subsequently acquired properties to finance investments, acquisitions or new developments.

Although we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the REIT distribution requirement, it is possible that, from time to time, we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement or we may decide to retain cash or distribute such greater amount as may be necessary to avoid income and excise taxation. This may be due to the timing differences between the actual receipt of income and actual payment of deductible expenses, on the one hand, and the inclusion of that income and deduction of those expenses in arriving at our taxable income, on the other hand. In addition, non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions also may cause us to fail to have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement.

In the event that timing differences occur or we deem it appropriate to retain cash, we may borrow funds, issue additional equity securities (although we cannot assure you that we will be able to do so), pay taxable stock dividends, if possible, distribute other property or securities or engage in a transaction intended to enable us to meet the REIT distribution requirements. This may require us to raise additional capital to meet our obligations; however, see **Risks Arising from Our Capital Structure**. We may be unable to raise additional capital necessary to consummate the proposed Sunrise REIT acquisition, to continue to implement our business plan and to meet our debt payments. The terms of our revolving credit facility and the indentures governing our outstanding senior notes restrict our ability to engage in some of these transactions.

We may still be subject to corporate level taxes.

Following our REIT election and due to the acquisition of Provident, we are considered to be a former C corporation for income tax purposes. Therefore, we remain potentially subject to corporate level taxes for any Kindred asset dispositions occurring before December 31, 2008. Also, as a consequence of the Provident acquisition, we remain potentially subject to corporate level taxes if we dispose of any of the Brookdale properties before November 2014.

ITEM 1B. *Unresolved Staff Comments*

None.

ITEM 2. *Properties*

Seniors Housing and Healthcare-Related Properties

As of December 31, 2006, we owned 172 seniors housing communities, 218 skilled nursing facilities, 43 hospitals and 19 other properties in 43 states. We believe that the geographic diversity of the properties makes our portfolio less susceptible to adverse changes in state reimbursement and regulation and regional economic downturns.

At December 31, 2006, we had mortgage loan obligations outstanding in the aggregate principal amount of \$734.0 million, secured by certain of our properties. On January 2, 2007, we repaid one of the mortgages in its entirety. The outstanding balance of this obligation at December 31, 2006 was \$114.4 million.

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The following table sets forth select information regarding the properties we owned as of December 31, 2006 for each state in which we own property:

State	As of December 31, 2006						Other Properties Number
	Seniors Housing Communities		Skilled Nursing Facilities		Hospitals		
	Number of Properties	Units	Number of Facilities	Licensed Beds	Number of Hospitals	Licensed Beds	
Alabama	2	220	3	443			
Arizona	7	584	5	723	2	109	
Arkansas	6	420					
California	16	2,499	11	1,341	5	417	
Colorado	2	133	4	515	1	68	
Connecticut	3	373	6	736			
Florida	16	1,636			6	491	4
Georgia	5	262	5	685			
Idaho	1	70	8	791			
Illinois	9	1,990			4	431	
Indiana	8	946	15	2,313	1	59	
Kansas	3	354					
Kentucky			28	3,175	3	760	1
Louisiana					1	168	
Maine			10	801			
Maryland			3	462			
Massachusetts	8	1,098	27	2,934	2	109	
Michigan	5	560			1	220	
Minnesota	8	542	1	140			
Missouri	1	173			2	227	
Montana			2	331			
Nebraska	1	136	1	163			
Nevada	1	152	2	180	1	52	
New Hampshire			3	512			
New Jersey	2	195	1	153			1
New Mexico	2	344			1	61	
New York	9	910					
North Carolina	4	231	19	2,312	1	124	
Ohio	16	1,213	16	2,127	1	29	
Oklahoma					1	59	
Oregon			2	254			
Pennsylvania	19	1,188	6	797	2	115	2
Rhode Island			2	201			
South Carolina	2	117					
Tennessee	5	341	4	681	1	49	
Texas	1	138			7	496	11
Utah			5	620			
Vermont			1	160			
Virginia	2	177	4	629			
Washington	3	320	9	885			
West Virginia	1	64					
Wisconsin	4	122	11	1,872			
Wyoming			4	451			

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Total	172	17,508	218	27,387	43	4,044	19
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Other Real Estate Investments

As of December 31, 2006, our other real estate investments consisted of six first mortgage loans, secured by seven properties, in the outstanding aggregate principal amount of \$35.9 million.

Each first mortgage loan accrues interest at a rate of 9% per annum and provides for monthly amortization of principal with a balloon payment maturity date ranging between February and December 2010. Three of these loans were extended in conjunction with the buy-out of our \$21.4 million investment in eight distressed mortgage loans and are guaranteed by a third party, unrelated to the borrower, and its two principals. The remaining three loans are guaranteed by an affiliate of the borrower and its two principals.

See Note 7 Loans Receivable of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Corporate Offices

We lease our corporate offices in Louisville, Kentucky and Chicago, Illinois.

ITEM 3. Legal Proceedings

The information contained in Note 14 Litigation of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K is incorporated by reference into this Item 3.

In addition, in connection with our pending acquisition of Sunrise REIT and the competing offer from Health Care Property Investors, Inc., we are a party to proceedings in the Ontario Superior Court of Justice seeking legal interpretations of our rights under various agreements pertaining to the acquisition. Notices of application concerning the proceedings were filed on February 18, 2007 and February 21, 2007.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities **Market Information**

Our common stock, par value \$0.25 per share, is listed and traded on the New York Stock Exchange (the NYSE) under the symbol VTR. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported on the NYSE and the dividends declared per share.

	Sales Price of Common Stock		Dividends Declared
	High	Low	
2005			
First Quarter	\$ 27.68	\$ 24.43	\$ 0.360
Second Quarter	31.62	25.10	0.360
Third Quarter	32.39	28.87	0.360
Fourth Quarter	32.71	29.25	0.360
2006			
First Quarter	\$ 34.66	\$ 29.54	\$ 0.395

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Second Quarter	34.48	30.66	0.395
Third Quarter	40.07	33.51	0.395
Fourth Quarter	42.40	36.50	0.395

As of February 14, 2007, there were 106,269,462 shares of our common stock outstanding held by approximately 3,175 stockholders of record.

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Dividends and Distributions

We pay regular quarterly dividends to holders of our common stock. On February 16, 2007, our Board of Directors declared the first quarterly installment of our 2007 dividend in the amount of \$0.475 per share, payable on March 30, 2007 to stockholders of record on March 20, 2007. We expect to distribute 100% or more of our taxable net income to our stockholders for 2007.

Our Board of Directors normally makes decisions regarding the frequency and amount of our dividends on a quarterly basis. Because the Board considers a number of factors when making these decisions, we cannot assure you that we will maintain the policy stated above. Please see **Cautionary Statements** and the risk factors included in Part I, Item 1A of this Annual Report on Form 10-K for a description of other factors that may affect our distribution policy.

Our stockholders may reinvest all or a portion of any cash distribution on their shares of our common stock by participating in our Distribution Reinvestment and Stock Purchase Plan, subject to the terms of the plan. See **Note 15 Capital Stock** of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Director and Employee Stock Sales

Certain of our directors, executive officers and other employees have adopted and may, from time to time in the future, adopt non-discretionary, written trading plans that comply with Rule 10b5-1 under the Exchange Act, or otherwise monetize their equity-based compensation.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information with respect to our equity compensation plans as of December 31, 2006:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c)
			Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders (1)	1,118,051	\$ 24.27	8,373,727
Equity compensation plans not approved by stockholders (2)	18,924	N/A	1,145,354
Total	1,136,975	\$ 24.27	9,519,081

- (1) These plans consist of (i) the 1987 Incentive Compensation Program (Employee Plan); (ii) the TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan; (iii) the 2000 Incentive Compensation Plan (Employee Plan) (formerly known as the 1997 Incentive Compensation Plan); (iv) the 2004 Stock Plan for Directors (which amended and restated the 2000 Stock Option Plan for Directors (formerly known as the 1997 Stock Option Plan for Non-Employee Directors)); (v) the Employee and Director Stock Purchase Plan; (vi) the 2006 Incentive Plan; and (vii) the 2006 Stock Plan for Directors.
- (2) These plans consist of (i) the Common Stock Purchase Plan for Directors, under which our non-employee directors may receive common stock in lieu of directors' fees, (ii) the Nonemployee Director Deferred Stock Compensation Plan, under which our non-employee directors may receive units convertible on a one-for-one basis into common stock in lieu of director fees, and (iii) the Executive Deferred Stock Compensation Plan, under which our executive officers may receive units convertible on a one-for-one basis into common stock in lieu of compensation.

Table of Contents**Stock Repurchases**

During the fourth quarter ended December 31, 2006, no purchases of our common stock were made by or on behalf of us or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act).

ITEM 6. Selected Financial Data

You should read the following selected financial data in conjunction with our Consolidated Financial Statements and the notes thereto included in Item 8 of this Annual Report on Form 10-K.

	2006	As of and For The Years Ended December 31,				2002
	2005	2004	2003			
Operating Data						
Rental income	\$ 418,449	\$ 324,719	\$ 232,076	\$ 189,987	\$ 174,822	
Interest expense	141,094	105,581	66,105	61,660	72,384	
General, administrative and professional fees	26,136	25,075	18,124	16,432	14,766	
Income before discontinued operations	131,430	125,247	100,220	96,135	36,949	
Discontinued operations		5,336	20,680	66,618	28,757	
Net income	131,430	130,583	120,900	162,753	65,706	
Per Share Data						
Income per common share before discontinued operations, basic	\$ 1.26	\$ 1.32	\$ 1.20	\$ 1.21	\$ 0.53	
Net income per common share, basic	\$ 1.26	\$ 1.37	\$ 1.45	\$ 2.05	\$ 0.95	
Income per common share before discontinued operations, diluted	\$ 1.25	\$ 1.31	\$ 1.19	\$ 1.20	\$ 0.53	
Net income per common share, diluted	\$ 1.25	\$ 1.36	\$ 1.43	\$ 2.03	\$ 0.93	
Dividends declared per common share	\$ 1.58	\$ 1.44	\$ 1.30	\$ 1.07	\$ 0.95	
Other Data						
Net cash provided by operating activities	\$ 238,867	\$ 223,764	\$ 149,958	\$ 137,366	\$ 116,385	
Net cash (used in) provided by investing activities	(481,974)	(615,041)	(298,695)	159,701	(34,140)	
Net cash provided by (used in) financing activities	242,712	389,553	69,998	(217,418)	(98,386)	
FFO (1)	249,668	213,203	150,322	152,631	84,083	
Balance Sheet Data						
Real estate investments, at cost	\$ 3,707,837	\$ 3,027,896	\$ 1,512,211	\$ 1,090,181	\$ 1,221,406	
Cash and cash equivalents	1,246	1,641	3,365	82,104	2,455	
Total assets	3,253,800	2,639,118	1,126,935	812,850	895,780	
Senior notes payable and other debt	2,329,053	1,802,564	843,178	640,562	707,709	

- (1) We consider funds from operations (FFO) an appropriate measure of performance of an equity REIT, and we use the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO. NAREIT defines FFO as net income (computed in accordance with GAAP, excluding gains or losses from sales of real estate property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. FFO should not

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be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance or as an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is FFO indicative of sufficient cash flow to fund all of our needs. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Funds from Operations included in Item 7 of this Annual Report on Form 10-K.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of Ventas, Inc. (together with its subsidiaries, unless otherwise indicated or except where the context otherwise requires, we, us or our). You should read this discussion in conjunction with our Consolidated Financial Statements and the notes thereto included in Item 8 of this Annual Report on Form 10-K. This Management's Discussion and Analysis will help you understand:

Key transactions that we completed in 2006;

Our critical accounting policies and estimates;

Our results of operations for the last three years;

Our liquidity and capital resources; and

Our funds from operations.

Key Transactions in 2006

During 2006, we completed the following key transactions:

We acquired 64 senior care properties located in 15 states in a transaction valued at \$602.4 million, and entered into a master lease agreement with a new tenant, Senior Care, Inc. (Senior Care).

We acquired eight seniors housing communities from two existing tenants in five separate transactions valued at \$74.3 million.

We exercised our election to increase aggregate base rental under the four master lease agreements (the Kindred Master Leases) between us and Kindred Healthcare, Inc. (together with its subsidiaries, Kindred) by \$33.1 million per year pursuant to the Rent Reset contained in the Kindred Master Leases, resulting in new aggregate annual base rental on the 225 properties we lease to Kindred of \$239.0 million.

We entered into a \$500.0 million unsecured revolving credit facility initially priced at 75 basis points over LIBOR, replacing our previous \$300.0 million secured revolving credit facility that was priced at 145 basis points over LIBOR.

We issued \$225.0 million of 6 3/4% unsecured senior notes, maturing on April 1, 2017, and \$230.0 million of 3 7/8% convertible unsecured senior notes, maturing on November 15, 2011.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), which requires us to make estimates and judgments about future events that affect the reported amounts in the financial statements and the related disclosures. We believe that the following critical accounting policies, among others, affect our more significant estimates and judgments used in the preparation of our financial statements. For more information regarding our critical accounting policies, please see Note 2 Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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Long-Lived Assets

Investments in real estate properties are recorded at cost. We account for acquisitions using the purchase method. The cost of the properties acquired is allocated among tangible land, buildings and equipment and recognized intangibles based upon estimated fair values in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. We estimate fair values of the components of assets acquired as of the acquisition date or engage a third party appraiser as necessary. Recognized intangibles, if any, include the value of acquired lease contracts and related customer relationships.

Our method for determining fair value varies with the categorization of the asset acquired. We estimate the fair value of buildings on an as-if-vacant basis, and depreciate the building value over the estimated remaining life of the building. We determine the allocated value of other fixed assets based upon the replacement cost and depreciate such value over their estimated remaining useful lives. We determine the value of land either based on real estate tax assessed values in relation to the total value of the asset, internal analyses of recently acquired and existing comparable properties within our portfolio or third party appraisals. The fair value of in-place leases, if any, reflects (i) above and below market leases, if any, determined by discounting the difference between the estimated current market rent and the in-place rentals, the resulting intangible asset of which is amortized to rental revenue over the remaining life of the associated lease plus any fixed rate renewal periods, if applicable, (ii) the estimated value of the cost to obtain tenants, including tenant allowances, tenant improvements and leasing commissions, which is amortized over the remaining life of the associated lease, and (iii) an estimated value of the absorption period to reflect the value of the rents and recovery costs foregone during a reasonable lease-up period, as if the acquired space was vacant, which is amortized over the remaining life of the associated lease. We also estimate the value of tenant or other customer relationships acquired by considering the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with such tenant, such tenant's credit quality, expectations of lease renewals with such tenant, and the potential for significant, additional future leasing arrangements with such tenant. We amortize such value, if any, over the expected term of the associated arrangements or leases, which would include the remaining lives of the related leases and any expected renewal periods.

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, primarily consisting of our investments in real estate, for impairment indicators in accordance with SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations and adjust the net book value of leased properties and other long-lived assets to fair value if the sum of the expected future cash flows and sales proceeds is less than book value. An impairment loss is recognized at the time we make any such determination. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted. We did not record any impairment charges for the years ended December 31, 2006, 2005 and 2004.

Loans and Other Amounts Receivable from Third Parties

We evaluate the collectibility of loans and other amounts receivable from third parties based on a number of factors, including (i) corporate and facility-level financial and operations reports, (ii) compliance with the financial covenants set forth in the borrowing or lease agreement, (iii) the financial stability of the applicable borrow or tenant and any guarantor and (iv) the payment history of the borrower or tenant. Our level of reserves, if any, for loans and other amounts receivable from third parties fluctuates depending upon all of the factors previously mentioned.

Revenue Recognition

Certain of our leases, excluding the Kindred Master Leases, but including the majority of our leases with subsidiaries of Brookdale Senior Living Inc. (together with its subsidiaries, which include Brookdale Living

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Communities, Inc. and Alterra Healthcare Corporation, Brookdale Senior Living), provide for periodic and determinable increases in base rent. Base rental revenues under these leases are recognized on a straight-line basis over the term of the applicable lease. Income on our straight-line revenue is recognized when collectibility is reasonably assured. In the event we determine that collectibility of straight-line revenue is not reasonably assured, we establish an allowance for estimated losses. Recognizing rental income on a straight-line basis results in recognized revenue exceeding cash amounts contractually due from our tenants during the first half of the term for leases that have straight-line treatment.

Certain of our other leases, including the Kindred Master Leases, provide for an annual increase in rental payments only if certain revenue parameters or other contingencies are met. We recognize the increased rental revenue under these leases only if the revenue parameters or other contingencies are met rather than on a straight-line basis over the term of the applicable lease. We recognize income from rent, lease termination fees and other income once all of the following criteria are met in accordance with Securities and Exchange Commission (the Commission) Staff Accounting Bulletin 104: (i) the agreement has been fully executed and delivered; (ii) services have been rendered; (iii) the amount is fixed or determinable; and (iv) the collectibility is reasonably assured.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)), which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). SFAS No. 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion No. 25). Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123, except that SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative under SFAS No. 123(R).

As required, we adopted the provisions of this accounting standard on January 1, 2006. We applied the modified-prospective transition method of adoption in which compensation cost is recognized beginning on the date we adopted the accounting standard for all share-based payments granted after the adoption date and for all awards granted to employees prior to the adoption date that remain unvested on the adoption date. See Note 10 Stock-Based Compensation of the Notes to Condensed Consolidated Financial Statements regarding the effect the adoption of SFAS No. 123(R) had on our consolidated financial statements.

Gain on Sale of Facilities

We recognize sales of facilities only upon the closing of the transaction with the purchaser. Payments received from purchasers prior to closing are recorded as deposits and classified as other assets in the consolidated balance sheet. Gains on facilities sold are recognized using the full accrual method upon closing when the collectibility of the sales price is reasonably assured, we are not obligated to perform significant activities after the sale to earn the profit, we have received adequate initial investment from the buyer, and other profit recognition criteria have been satisfied. Gains may be deferred in whole or in part until the sales satisfy the requirements of gain recognition on sales of real estate under SFAS No. 66, Accounting for Sales of Real Estate.

Fair Value of Derivative Instruments

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are verified with a third party consultant. Such amounts and the recognition of such amounts in the financial statements are subject to significant estimates which may change in the future.

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The tables below show our results of operations for each year and the absolute and percentage change in those results from year to year.

Years Ended December 31, 2006 and 2005

	Year Ended December 31,		Change	
	2006	2005	\$	%
	(dollars in thousands)			
Revenues:				
Rental income	\$ 418,449	\$ 324,719	\$ 93,730	28.9%
Interest income from loans receivable	7,014	5,001	2,013	40.3
Interest and other income	2,886	3,268	(382)	(11.7)
Total revenues	428,349	332,988	95,361	28.6
Expenses:				
Interest	141,094	105,581	35,513	33.6
Depreciation and amortization	119,653	87,848	31,805	36.2
Property-level operating expenses	3,171	2,576	595	23.1
General, administrative and professional fees (including non-cash stock-based compensation expense of \$3,046 and \$1,971 for the years ended 2006 and 2005, respectively)	26,136	25,075	1,061	4.2
Loss on extinguishment of debt	1,273	1,376	(103)	(7.5)
Rent reset costs	7,361		7,361	nm
Reversal of contingent liability	(1,769)		(1,769)	nm
Net gain on swap breakage		(981)	981	nm
Net proceeds from litigation settlement		(15,909)	15,909	nm
Contribution to charitable foundation		2,000	(2,000)	nm
Total expenses	296,919	207,566	89,353	43.0
Operating income	131,430	125,422	6,008	4.8
Net loss on real estate disposals		(175)	175	nm
Income before discontinued operations	131,430	125,247	6,183	4.9
Discontinued operations		5,336	(5,336)	nm
Net income	\$ 131,430	\$ 130,583	\$ 847	0.6%

nm - not meaningful

Revenues

The increase in our 2006 rental income reflects the recognition of (i) \$11.3 million in additional rent relating to the properties acquired during 2006 (\$7.0 million relates to the Senior Care acquisition), (ii) \$58.9 million in additional rent relating to the full year effect in 2006 of properties acquired during 2005 (\$46.4 million relates to the Provident acquisition), (see Note 5 Acquisitions of the Notes to Consolidated Financial Statements), (iii) \$15 million of rental income resulting from the Rent Reset under the Kindred Master Leases, (iv) a \$6.8 million increase in rent from Kindred resulting from the 3.5% annual escalator under the Kindred Master Leases effective May 1, 2006 (prior to the Rent Reset) and (v) \$1.7 million of additional rental income resulting from rent escalations on various other properties.

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Interest income from loans receivable, which includes amortization of deferred fees, increased \$2.0 million in 2006 primarily as a result of a bridge loan issued to affiliates of the seller of the Senior Care properties, which bore interest at a rate of approximately 10.4% during the time the loan remained outstanding. We recognized approximately \$3.4 million of interest income from this loan, which was repaid upon consummation of the Senior Care transaction in November 2006. This was partially offset by a net decrease of \$1.7 million from interest income in connection with a \$17.0 million mezzanine loan made to Trans Healthcare, Inc. (THH) in 2002, as this loan was repaid in full in March 2006. See Note 7 Loans Receivable of the Notes to Consolidated Financial Statements.

Expenses

Interest expense includes \$3.3 million and \$3.9 million of amortized deferred financing costs for the years ended December 31, 2006 and 2005, respectively. Interest expense included in discontinued operations was \$0.6 million for the year ended December 31, 2005. Total interest expense, including interest allocated to discontinued operations, increased \$34.9 million in 2006 over 2005, primarily due to \$40.7 million of additional interest expense due to increased debt to fund acquisitions made during 2006, partially offset by a \$5.8 million decrease from lower effective interest rates. Our effective interest rate decreased to 7.3% for the year ended December 31, 2006, from 7.6% for the year ended December 31, 2005.

Depreciation and amortization expense increased primarily due to the properties acquired during 2006 and 2005. See Note 5 Acquisitions of the Notes to Consolidated Financial Statements.

The increase in general, administrative and professional fees is attributable primarily to the expensing of stock options as a result of our adoption of SFAS No. 123(R) at the beginning of 2006.

In April 2006, we refinanced our previous \$300.0 million secured revolving credit facility and entered into a \$500.0 million unsecured revolving credit facility, resulting in a loss from extinguishment of debt of \$1.3 million primarily related to the write-off of unamortized deferred financing costs. In December 2005, we paid off our commercial mortgage backed securities (CMBS) loan and incurred a loss on extinguishment of debt of \$1.4 million primarily related to the write-off of unamortized deferred financing costs.

In connection with the Kindred Rent Reset process, we incurred approximately \$7.4 million of one-time costs which we expensed during 2006. These costs included fees of the final appraisers and third party experts, consulting fees and legal fees and expenses.

During 2006, we were notified by the Internal Revenue Service that it had completed its audit of our 2001 federal tax return with no additional tax being due. Accordingly, we reversed into income a previously recorded \$1.8 million tax liability related to uncertainties surrounding the outcome of this audit. See Note 12 Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

As a result of anticipated lower variable rate debt balances due to the payoff of our CMBS loan in December 2005, we entered into an agreement with the counterparty to our interest rate swap to reduce the notional amount of the swap to \$100.0 million, from \$330.0 million, for its remaining term in exchange for a payment to the counterparty of approximately \$2.3 million. In addition, we recognized \$3.3 million of a previously deferred gain recorded in connection with our 1999 transaction to shorten the maturity of a separate interest rate swap.

During 2005, we settled our previously disclosed litigation against Sullivan & Cromwell LLP and received net proceeds of \$15.9 million, after payment of expenses in connection with the settlement. See Note 14 Litigation of the Notes to Consolidated Financial Statements.

With \$2.0 million of the net proceeds received from the litigation settlement, we established and funded the Ventas Charitable Foundation, Inc. (the Foundation) in 2005. The Foundation is used to support charitable and philanthropic causes important to the communities in which we operate and to our employees.

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Discontinued Operations

We did not make any dispositions during the year ended December 31, 2006. In 2005, we completed the sale of one facility for \$9.9 million in net cash proceeds and recognized a net gain on the sale of \$5.1 million. In addition, the tenant paid us lease termination fees of approximately \$0.2 million. The income of the property sold, net gain and lease termination fee were included in discontinued operations. See Note 6 Dispositions of the Notes to Consolidated Financial Statements.

Years Ended December 31, 2005 and 2004

	Year Ended December 31,		Change	
	2005	2004	\$	%
	(dollars in thousands)			
Revenues:				
Rental income	\$ 324,719	\$ 232,076	\$ 92,643	39.9%
Interest income from loans receivable	5,001	2,958	2,043	69.1
Interest and other income	3,268	987	2,281	231.1
Total revenues	332,988	236,021	96,967	41.1
Expenses:				
Interest	105,581	66,105	39,476	59.7
Depreciation and amortization	87,848	48,865	38,983	79.8
Property-level operating expenses	2,576	1,337	1,239	92.7
General, administrative and professional fees (including non-cash stock-based compensation expense of \$1,971 and \$1,664 for the years ended 2005 and 2004, respectively)	25,075	18,124	6,951	38.4
Loss on extinguishment of debt	1,376	1,370	6	0.4
Net gain on swap breakage	(981)		(981)	nm
Net proceeds from litigation settlement	(15,909)		(15,909)	nm
Contribution to charitable foundation	2,000		2,000	nm
Total expenses	207,566	135,801	71,765	52.8
Operating income	125,422	100,220	25,202	25.1
Net loss on real estate disposals	(175)		(175)	nm
Income before discontinued operations	125,247	100,220	25,027	25.0
Discontinued operations	5,336	20,680	(15,344)	(74.2)
Net income	\$ 130,583	\$ 120,900	\$ 9,683	8.0%

nm - not meaningful

Revenues

The increase in our 2005 rental income reflects the recognition of (i) \$59.5 million in additional rent relating to the Provident acquisition in 2005 and \$26.4 million in additional rent relating to the full year effect in 2005 of properties acquired during 2004 and the annual escalators in 2005 (see Note 5 Acquisitions of the Notes to Consolidated Financial Statements) and (ii) a \$6.7 million increase in rent from Kindred resulting from the 3.5% annual escalator under the Kindred Master Leases effective May 1, 2005.

Interest income from loans receivable, which includes amortization of deferred fees, increased \$2.0 million in 2005 primarily as a result of interest income in connection with a \$17.0 million mezzanine loan made to THI

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in 2002, of which \$4.0 million principal amount remained outstanding at December 31, 2005, and interest income on the six first mortgage loans made in 2005. During 2005, we invested \$21.4 million in a portfolio of eight distressed mortgage loans, on which we earned interest of \$1.0 million. As of December 31, 2005, the balance on the distressed mortgage loans portfolio had been repaid in its entirety.

The increase in interest and other income primarily relates to \$1.3 million of fees associated with our investment in the portfolio of eight distressed mortgage loans described above and \$0.8 million related to the recovery in 2005 of a previously written-off receivable.

Expenses

Interest expense includes \$3.9 million of amortized deferred financing costs for each of the years ended December 31, 2005 and 2004. Interest expense included in discontinued operations was \$0.6 million and \$1.1 million for the years ended December 31, 2005 and 2004, respectively. Total interest expense, including interest allocated to discontinued operations, increased \$39.0 million in 2005 over 2004, primarily due to \$49.9 million of additional interest expense due to increased debt to fund acquisitions made during 2005, partially offset by a \$10.9 million decrease from lower effective interest rates. Our effective interest rate decreased to 7.6% for the year ended December 31, 2005 from 8.4% for the year ended December 31, 2004.

Depreciation and amortization expense increased primarily due to the properties acquired during 2005. See Note 5 Acquisitions of the Notes to Consolidated Financial Statements.

The increase in property-level operating expenses relates solely to a full year of activity for the seven medical office buildings acquired during 2004 and the acquisition of two medical office buildings in the first quarter of 2005.

The increase in general, administrative and professional fees is attributable to costs associated with growth in our asset base, our initiative to develop and market our strategic diversification program, engage in comprehensive asset management, comply with regulatory requirements such as the Sarbanes-Oxley Act of 2002, and to attract and retain appropriate personnel to achieve our business objectives.

In December 2005, we paid off our CMBS loan and incurred a loss from extinguishment of debt of \$1.4 million primarily related to the write-off of unamortized deferred financing costs. In September 2004, we refinanced indebtedness under our prior credit agreement at lower interest rates and incurred a loss from extinguishment of debt of \$1.4 million related to the write-off of unamortized deferred financing costs.

As a result of anticipated lower variable rate debt balances due to the payoff of our CMBS loan in December 2005, we entered into an agreement with the counterparty to our interest rate swap to reduce the notional amount of the swap to \$100.0 million, from \$330.0 million, for its remaining term in exchange for a payment to the counterparty of approximately \$2.3 million. In addition, we recognized \$3.3 million of a previously deferred gain recorded in connection with our 1999 transaction to shorten the maturity of a separate interest rate swap.

During the fourth quarter of 2005, we settled our previously disclosed litigation against Sullivan & Cromwell LLP and received net proceeds of \$15.9 million, after payment of expenses in connection with the settlement. See Note 14 Litigation of the Notes to Consolidated Financial Statements.

With \$2.0 million of the net proceeds received from the litigation settlement, we established and funded the Foundation in 2005.

Discontinued Operations

The decrease in discontinued operations is a result of a lower net gain on the sale of properties in 2005. Discontinued operations in 2004 includes the net income of two properties sold, whereas the discontinued operations in 2005 includes only the net income from one property sold.

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In 2005, we completed the sale of one facility for \$9.9 million in net cash proceeds and recognized a net gain on the sale of \$5.1 million. In addition, the tenant paid us lease termination fees of approximately \$0.2 million. In 2004, we completed the sale of two facilities for \$21.1 million in net cash proceeds and recognized a net gain on the sale of \$19.4 million. In addition, the tenant paid us lease termination fees approximating \$0.5 million. The net gains and lease termination fees are included in discontinued operations for the respective years in which the dispositions occurred. See Note 6 Dispositions of the Notes to Consolidated Financial Statements.

Funds from Operations

Our funds from operations (FFO) for the five years ended December 31, 2006 are summarized in the following table:

	2006	For the Year Ended December 31,			2002
		2005	2004	2003	
		(in thousands)			
Net income	\$ 131,430	\$ 130,583	\$ 120,900	\$ 162,753	\$ 65,706
Adjustments:					
Depreciation on real estate assets	118,238	87,406	48,477	39,216	38,012
Loss (gain) on real estate disposals		175			(64)
Other items:					
Discontinued operations:					
Gain on sale of real estate		(5,114)	(19,428)	(51,781)	(23,450)
Depreciation on real estate assets		153	373	2,443	3,879
FFO	\$ 249,668	\$ 213,203	\$ 150,322	\$ 152,631	\$ 84,083

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. To overcome this problem, we consider FFO an appropriate measure of performance of an equity real estate investment trust (REIT) and we use the National Association of Real Estate Investment Trusts (NAREIT) definition of FFO. NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance or as an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is FFO necessarily indicative of sufficient cash flow to fund all of our needs. We believe that in order to facilitate a clear understanding of our consolidated historical operating results, FFO should be examined in conjunction with net income as presented in the Consolidated Financial Statements and data included elsewhere in this Annual Report on Form 10-K.

Asset/Liability Management

Asset/liability management is a key element of our overall risk management program. The objective of asset/liability management is to support the achievement of business strategies while maintaining appropriate risk levels. The asset/liability management process focuses on a variety of risks, including market risk (primarily interest rate risk) and credit risk. Effective management of these risks is an important determinant of the absolute

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levels and variability of FFO and net worth. The following discussion addresses our integrated management of assets and liabilities, including the use of derivative financial instruments. We do not use derivative financial instruments for speculative purposes.

Market Risk

We receive revenue primarily by leasing our assets under long-term triple-net leases in which the rental rate is generally fixed with annual escalators, subject to certain limitations. We also earn revenue from our mortgage loans. Our obligations under our revolving credit facility are floating rate obligations whose interest rate and related monthly interest payments vary with the movement in LIBOR. The general fixed nature of our assets and the variable nature of our obligations create interest rate risk. If interest rates were to rise significantly, our lease and other revenue might not be sufficient to meet our debt obligations. In order to mitigate this risk, in September 2001, we entered into an interest rate swap agreement in the original notional amount of \$450.0 million to hedge floating rate debt for the period between July 1, 2003 and June 30, 2008 (the "Swap"). The Swap is treated as a cash flow hedge for accounting purposes and is with a highly rated counterparty on which we pay a fixed rate of 5.385% and receive LIBOR from the counterparty. In 2003 and 2005, due to our lower expected future variable rate debt balances, we reduced the notional amount of the Swap to \$330.0 million and then to \$100.0 million for the remaining term of the Swap. See Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements. There are no collateral requirements under the Swap. As of December 31, 2006, the notional amount of the Swap was \$100.0 million, which is scheduled to expire on June 30, 2008.

To highlight the sensitivity of the Swap and our fixed rate debt to changes in interest rates, the following summary shows the effects of a hypothetical instantaneous change of 100 basis points (BPS) in interest rates:

	As of December 31,			
	2006		2005	
	(in thousands)			
	Swap	Fixed Rate Debt	Swap	Fixed Rate Debt
Notional amount	\$ 100,000	N/A	\$ 100,000	N/A
Gross book value	N/A	\$ 2,052,293	N/A	\$ 1,594,322
Fair value (1)	(429)	2,190,949	(1,580)	1,765,805
Fair value reflecting change in interest rates: (1)				
-100 BPS	(1,725)	2,301,226	(3,847)	1,860,688
+100 BPS	830	2,088,514	634	1,677,903

- (1) The change in fair value of fixed rate debt was due to the issuance of approximately \$455.0 million of fixed rate senior notes and the assumption of approximately \$10.8 million of fixed rate debt as a result of our acquisitions during the year ended December 31, 2006, partially offset by a general increase in interest rates.

N/A Not applicable.

We paid \$0.3 million under the Swap during the year ended December 31, 2006. Assuming that interest rates do not change, we estimate that we will pay less than \$0.1 million on the Swap during the year ending December 31, 2007.

We had approximately \$284.7 million and \$208.2 million of variable rate debt outstanding as of December 31, 2006 and 2005, respectively. The increase in our outstanding variable rate debt from December 31, 2005 is primarily attributable to the assumption of \$114.8 million of mortgage debt in conjunction with the Senior Care transaction that was repaid on January 2, 2007, offset by a reduction in our outstanding balance on the unsecured revolving credit facility. The Swap currently effectively hedges \$100.0 million of our outstanding variable rate debt. Any amounts of variable rate debt in excess of \$100.0 million are subject to interest rate changes. However, pursuant to the terms of certain leases with one of our tenants, if interest rates increase on certain debt that we have totaling \$218.4 million as of December 31, 2006, our tenant is required to pay us additional rent (on a dollar-for-dollar basis) in an amount equal to the increase in interest expense resulting from

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the increased interest rates. Therefore, the increase in interest expense related to this debt is equally offset by an increase in additional rent due to us from the tenant. As of December 31, 2006, there was minimal cash flow impact from the fluctuation of interest rates on variable rate debt since we effectively hedged nearly all of our variable rate debt. The fair value of our fixed and variable rate debt is based on current interest rates at which similar borrowings could be made by us.

We may engage in additional hedging strategies in the future, depending on management's analysis of the interest rate environment and the costs and risks of such strategies. Our market risk sensitive instruments are not entered into for trading purposes.

Credit Risk

As a result of our spin off of Kindred in May 1998 and the Provident acquisition in June 2005, we have a significant concentration of credit risk with Kindred and Brookdale Senior Living. For the years ended December 31, 2006 and 2005, Kindred accounted for \$220.9 million, or 51.6% of our total revenues, and \$199.1 million, or 59.8% of our total revenues, respectively, and Brookdale Senior Living accounted for \$122.7 million, or 28.6% of our total revenues, and \$76.2 million, or 22.9% of our total revenues, respectively. Accordingly, the financial condition of Kindred and Brookdale Senior Living and their ability to meet our rent obligations will largely determine our rental revenues and our ability to make distributions to our stockholders. In addition, any failure by Kindred or Brookdale Senior Living to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to enlist and maintain patients in its facilities. See **Risk Factors** **Risks Arising from Our Business**. We are dependent on Kindred and Brookdale Senior Living; Kindred's or Brookdale Senior Living's inability or unwillingness to satisfy its obligations under its agreements with us could significantly harm us and our ability to service our indebtedness and other obligations and to make distributions to our stockholders as required to qualify as a REIT included in Part I, Item 1A of this Annual Report on Form 10-K and **Note 4** **Concentration of Credit Risk** of the Notes to Consolidated Financial Statements. We monitor our credit risk under our lease agreements with our tenants by, among other things, (i) reviewing and analyzing information regarding the healthcare industry generally, publicly available information regarding tenants, and information provided by the tenants and borrowers under our lease and other agreements, and (ii) having periodic discussions with tenants, borrowers and their representatives.

Liquidity and Capital Resources

During 2006, our principal sources of liquidity were proceeds from debt issuances, cash flow from operations, borrowings under our unsecured and previous secured revolving credit facilities, proceeds from stock option exercises, and proceeds from the Distribution Reinvestment and Stock Purchase Plan. We anticipate that cash flow from operations over the next 12 months will be adequate to fund our business operations, dividends to stockholders and debt amortization. Capital requirements for acquisitions may require funding from borrowings, assumption of debt from the seller, issuance of secured or unsecured long-term debt or other securities or equity offerings.

We intend to continue to fund future investments through cash flow from operations, borrowings under our unsecured revolving credit facility, disposition of assets (in whole or in part through joint venture arrangements with third parties) and issuance of secured or unsecured long-term debt or other securities. As of December 31, 2006, we had cash and cash equivalents of \$1.2 million, escrow deposits and restricted cash of \$80.0 million, and unused availability of \$442.8 million under our revolving credit facility.

We expect to fund the Sunrise REIT acquisition through a fully committed bridge facility, composed of a \$1.0 billion senior interim loan and a \$600.0 million senior perpetual preferred stock issuance, and/or some combination of proceeds from asset sales (in whole or in part through joint venture arrangements with third parties), borrowings on our unsecured revolving credit facility, mortgage loans assumptions and other sources.

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Revolving Credit Facilities

In April 2006, we entered into a \$500.0 million unsecured revolving credit facility (the "Unsecured Revolving Credit Facility"). The Unsecured Revolving Credit Facility replaced our previous \$300.0 million secured revolving credit facility. The Unsecured Revolving Credit Facility matures in 2009, with a one-year extension option subject to the satisfaction of certain conditions, and contains a \$100.0 million accordion feature that permits us to increase our total borrowing capacity to \$600.0 million. In February 2007, we gave notice of our intention to exercise the full amount of this accordion feature. We anticipate completing this transaction by the end of the first quarter, although there can be no assurance that it will close or, if it does, when the closing will occur.

Generally, borrowings outstanding under the Unsecured Revolving Credit Facility bear interest at a fluctuating LIBOR-based rate per annum plus an applicable percentage based on our consolidated leverage, initially 0.75%. At December 31, 2006, the applicable percentage was 0.75%. Our previous secured revolving credit facility also bore interest at a fluctuating LIBOR-based rate per annum plus an applicable percentage. The applicable percentage for the previous secured revolving credit facility was 1.45% from January 1, 2006 until its replacement in April 2006.

Convertible Senior Notes

In December 2006, we completed the offering of \$230.0 million aggregate principal amount of our 3⁷/₈% Convertible Senior Notes due 2011 (the "Convertible Notes"). The Convertible Notes are convertible at the option of the holder (i) prior to September 15, 2011, upon the occurrence of specified events and (ii) on or after September 15, 2011, at any time prior to the close of business on the second business day prior to the stated maturity, in each case into cash up to the principal amount of the Convertible Notes and cash or shares of our common stock, at our election, in respect of any conversion value in excess of the principal amount at an initial conversion rate of 22.1867 shares per \$1,000 principal amount of notes (which equates to an initial conversion price of approximately \$45.07 per share). The initial conversion rate is subject to adjustment in certain circumstances, including the payment of a quarterly dividend in excess of \$0.395 per share. To the extent the market price of our common stock exceeds \$45.07 per share, adjusted downward in the case of quarterly dividends in excess of \$0.395 per share, our earnings per share will be diluted.

Pursuant to the registration rights agreement entered into in connection with the Convertible Notes offering, we agreed to file a registration statement covering resales by the holders of shares of our common stock, if any, issued upon conversion of the Convertible Notes. We will not receive any proceeds in connection with any such resales.

Senior Notes Offerings

In September 2006, we completed the offering of \$225.0 million aggregate principal amount of 6³/₄% Senior Notes due 2017 (the "2017 Senior Notes") of Ventas Realty and Ventas Capital Corporation (collectively, the "Issuers") at a 1% discount to par value.

In December 2005, we completed the offerings of \$200.0 million aggregate principal amount of 6¹/₂% Senior Notes due 2016 (the "2016 Senior Notes") of the Issuers at a 1/2% discount to par value.

In June 2005, we completed the offering of \$175.0 million aggregate principal amount of 6³/₄% Senior Notes due 2010 (the "2010 Senior Notes") of the Issuers, and \$175.0 million aggregate principal amount of 7¹/₈% Senior Notes due 2015 (the "2015 Senior Notes") of the Issuers. In June 2005, we also completed the offering of \$50.0 million aggregate principal amount of 6⁵/₈% Senior Notes due 2014 (the "2014 Senior Notes") of the Issuers, which was in addition to the \$125.0 million aggregate principal amount of 2014 Senior Notes originally issued in October 2004. The additional \$50.0 million aggregate principal amount of the 2014 Senior Notes was issued at a 1% discount to par value. The additional \$50.0 million aggregate principal amount and the original \$125.0 million aggregate principal amount of the 2014 Senior Notes are governed by the same indenture.

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In April 2002, we completed the offering of \$175.0 million aggregate principal amount of 8 ³/₄% Senior Notes due 2009 (the 2009 Senior Notes) of the Issuers, and \$225.0 million aggregate principal amount of 9% Senior Notes due 2012 (the 2012 Senior Notes) of the Issuers. In December 2002, we purchased \$0.8 million principal amount of 2009 Senior Notes and \$33.2 million principal amount of 2012 Senior Notes in open market transactions.

As of December 31, 2006, \$174.2 million principal amount of 2009 Senior Notes, \$175.0 million principal amount of 2010 Senior Notes, \$191.8 million principal amount of 2012 Senior Notes, \$175.0 million principal amount of 2014 Senior Notes, \$175.0 million principal amount of 2015 Senior Notes, \$200.0 million principal amount of 2016 Senior Notes and \$225.0 million principal amount of the 2017 Senior Notes (collectively, the Senior Notes) were outstanding. We and certain of our subsidiaries have fully and unconditionally guaranteed the Senior Notes.

The Unsecured Revolving Credit Facility, the Senior Notes and the Convertible Notes are subject to a number of restrictive covenants. See Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements.

Pursuant to registration rights agreements entered into in connection with the 2010 Senior Notes, 2015 Senior Notes and additional 2014 Senior Notes offerings, on October 28, 2005, we completed offers to exchange the 2010 Senior Notes, 2015 Senior Notes and additional 2014 Senior Notes with new series of notes that are registered under the Securities Act of 1933, as amended (the Securities Act), and are otherwise substantially identical to the original 2010 Senior Notes, 2015 Senior Notes and 2014 Senior Notes, except that certain transfer restrictions, registration rights and liquidated damages do not apply to the new notes. We did not receive any additional proceeds in connection with the exchange offers.

Pursuant to the registration rights agreements entered into in connection with the 2016 Senior Notes offerings, on April 7, 2006, we completed an offer to exchange the 2016 Senior Notes with a new series of notes that are registered under the Securities Act and are otherwise substantially identical to the original 2016 Senior Notes, except that certain transfer restrictions, registration rights and liquidated damages do not apply to the new notes. We did not receive any additional proceeds in connection with the exchange offer.

Dividends

In order to continue to qualify as a REIT, we must make annual distributions to our stockholders of at least 90% of REIT taxable income (excluding net capital gain). We declared dividends greater than 100% of estimated taxable income for 2005 and intend to pay a dividend greater than 100% of taxable income for 2006.

We expect that REIT taxable income will be less than cash flow due to the allowance of depreciation and other non-cash deductions in computing REIT taxable income. Although we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement, it is possible that from time to time we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement or we may decide to retain cash or distribute such greater amount as may be necessary to avoid income and excise taxation. If we do not have sufficient cash or liquid assets to enable us to satisfy the 90% distribution requirement, or if we desire to retain cash, we may borrow funds, issue additional equity securities, pay taxable stock dividends, if possible, distribute other property or securities or engage in a transaction intended to enable us to meet the REIT distribution requirements.

Capital Expenditures and Property Acquisitions

Except with respect to our medical office buildings and the properties we expect to acquire in connection with our proposed acquisition of Sunrise REIT, assuming the transaction closes (see Note 18 Subsequent Events of the Notes to Consolidated Financial Statements), capital expenditures to maintain and improve our

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leased properties generally will be incurred by our tenants. Accordingly, we do not believe that we will incur any major expenditures in connection with these leased properties. After the terms of the leases expire, or in the event that the tenants are unable or unwilling to meet their obligations under the leases, we anticipate that any expenditures relating to the maintenance of leased properties for which we may become responsible will be funded by cash flows from operations or through additional borrowings. To the extent that unanticipated expenditures or significant borrowings are required, our liquidity may be affected adversely. Our ability to borrow funds may be restricted in certain circumstances by the terms of the Unsecured Revolving Credit Facility and the indentures governing the Convertible Notes and the Senior Notes.

Equity Offerings

In April 2006, we filed an automatic shelf registration statement on Form S-3 with the Commission relating to the sale, from time to time, of an indeterminate amount of debt securities and related guarantees, common stock, preferred stock, depositary shares and warrants. The registration statement replaced our previous universal shelf registration statement, under which approximately \$500.0 million of securities remained available for offering.

In July 2005, we completed the sale of 3,247,000 shares of our common stock in an underwritten public offering pursuant to our previous universal shelf registration statement. We received \$97.0 million in net proceeds from the sale, which we used to repay indebtedness under our previous secured revolving credit facility and for general corporate purposes, including the funding of acquisitions.

In March 2004, we completed the sale of 2,000,000 shares of our common stock in an underwritten public offering pursuant to our previous universal shelf registration statement. We received \$51.1 million in net proceeds from the sale, which we used to repay indebtedness under our previous secured revolving credit facility and for general corporate purposes, including the funding of acquisitions.

Other

During 2006 and 2005, we assumed facility-level mortgage debt in connection with certain property acquisitions, including the Senior Care and Provident acquisitions. See Note 5 Acquisitions of the Notes to Consolidated Financial Statements. Outstanding facility-level mortgage debt was approximately \$734.0 million (of that amount, \$114.4 million was repaid in January 2007) and \$622.3 million as of December 31, 2006 and 2005, respectively.

We received proceeds on the exercises of stock options in the amounts of \$6.6 million and \$6.8 million for the years ended December 31, 2006 and 2005, respectively. Future proceeds on the exercises of stock options will be primarily affected by the future performance of our stock price and the number of options outstanding. Options outstanding have decreased to 1.1 million as of December 31, 2006, from 1.3 million and 1.6 million as of December 31, 2005 and 2004, respectively.

We generated net proceeds from our Distribution Reinvestment and Stock Purchase Plan of \$0.8 million and \$5.0 million for the years ended December 31, 2006 and 2005, respectively. In March 2005, we began offering a 1% discount on the purchase price of our stock to shareholders who reinvest their dividends and/or make optional cash purchases of common stock through the plan. Each month or quarter, as applicable, we may lower or eliminate the discount without prior notice, thereby affecting the future proceeds that we receive from this plan.

We have outstanding loans to certain current and former executive officers in the aggregate principal amount of approximately \$2.5 million as of December 31, 2006, down from \$2.8 million at December 31, 2005. The loans are payable over ten years beginning, in each case, on the date such loan was made. See Note 16 Related Party Transactions of the Notes to Consolidated Financial Statements.

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Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities totaled \$238.9 million and \$223.8 million for the years ended December 31, 2006 and 2005, respectively. The increase in 2006 cash flows is primarily a result of increases due to rent escalators and additional rent, net of interest expense, relating to the properties acquired during 2006 and the Rent Reset from the Kindred Master Leases.

Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2006 was \$482.0 million. We invested \$490.7 million in real property, which was financed through borrowings under the Unsecured Revolving Credit Facility and our previous secured revolving credit facility, the issuance of the Convertible Notes and \$225.0 million of Senior Notes and cash on hand, and proceeds of \$9.9 million released from escrow for use in an Internal Revenue Code Section 1031 exchange. Additionally, we invested \$191.1 million in real estate loans and received proceeds from our real estate loans of \$195.4 million.

Net cash used in investing activities for the year ended December 31, 2005 was \$615.0 million. We invested \$589.6 million in real property, which was financed through borrowings under our previous secured revolving credit facility, the issuance of \$400.0 million of Senior Notes, proceeds of \$97.0 million from our equity offering and cash on hand, and proceeds of \$11.3 million from the sale of facilities, of which \$9.9 million was held in escrow for use in an Internal Revenue Code Section 1031 exchange and subsequently released. Additionally, we invested \$47.3 million in real estate loans and received proceeds from our real estate loans of \$20.3 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled \$242.7 million for the year ended December 31, 2006, down from \$389.6 million for the year ended December 31, 2005. The proceeds included \$449.0 million from the issuance of Senior Notes and other debt and \$7.5 million from the issuance of common stock upon the exercise of stock options and from our Distribution Reinvestment and Stock Purchase Plan. The uses primarily included (i) aggregate principal payments on mortgage obligations of \$16.1 million, (ii) \$160.6 million of cash dividend payments, (iii) payments of deferred financing costs of \$4.9 million associated with the issuance of Senior Notes and (iv) net change in borrowings on the Unsecured Revolving Credit Facility and our previous secured revolving credit facility of \$32.2 million.

Net cash provided by financing activities totaled \$389.6 million for the year ended December 31, 2005. The proceeds included (i) \$600.0 million from the issuance of Senior Notes, (ii) \$102.0 million from the issuance of common stock, (iii) \$50.2 million from net borrowings under our previous secured revolving credit facility and (iv) \$6.8 million from the issuance of common stock upon the exercise of stock options. The uses primarily included (i) an aggregate principal payment of \$212.6 million on the CMBS loan to fulfill this debt obligation, (ii) aggregate principal payments on other mortgage obligations of \$19.4 million, (iii) \$125.8 million of cash dividend payments and (iv) a cash payment for the Swap break of \$2.3 million.

Table of Contents**Contractual Obligations**

The following table summarizes the effect that minimum debt (which includes principal and interest payments) and other material noncancelable commitments are expected to have on our cash flow in the future periods.

	Total	Less than 1 year	1-3 years (4) (in thousands)	3-5 years (5)	More than 5 (6) years
Long-term debt obligations (1)(2)	\$ 3,387,525	\$ 281,950	\$ 700,230	\$ 749,937	\$ 1,655,408
Obligations under interest rate swap (2)	429	224	205		
Acquisition commitments (3)	27,724	27,724			
Operating lease obligations	1,934	692	891	351	
Total	\$ 3,436,086	\$ 329,064	\$ 701,326	\$ 750,288	\$ 1,655,408

(1) Amounts represent contractual amounts due, including interest.

(2) Interest on variable rate debt and obligations under the Swap were based on forward rates obtained as of December 31, 2006.

(3) Includes commitments for the purchase of three seniors housing and other properties. One of these properties was acquired in an all cash transaction in January 2007 and the remaining two properties, which are part of the Senior Care acquisition, are tentatively scheduled to close in the first half of 2007.

(4) Includes outstanding principal amounts of \$174.2 million of the 2009 Senior Notes and \$57.0 million of the Unsecured Revolving Credit Facility.

(5) Includes outstanding principal amounts of \$175.0 million of the 2010 Senior Notes and \$230.0 million of the Convertible Notes.

(6) Includes outstanding principal amounts of \$191.8 million of the 2012 Senior Notes, \$175.0 million of the 2014 Senior Notes, \$175.0 million of the 2015 Senior Notes, \$200.0 million of the 2016 Senior Notes and \$225.0 million of the 2017 Senior Notes.

In connection with the Kindred spin off, we assigned our former third-party lease obligations and third-party guarantee agreements to Kindred. As of December 31, 2006, we believe that the aggregate exposure under our third-party lease obligations was approximately \$18.6 million and that we have no material exposure under the third-party guarantee agreements. Kindred has agreed to indemnify and hold us harmless from and against all claims against us arising out of the third-party leases, and we do not expect to incur any liability under those leases. However, we cannot assure you that Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that it will continue to honor its obligations under the indemnity agreement relating to the third-party leases. See Note 12 Commitments and Contingencies of the Notes to Consolidated Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The information set forth in Item 7 of this Annual Report on Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations Asset/Liability Management is incorporated by reference into this Item 7A.

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ITEM 8. *Financial Statements and Supplementary Data*

Ventas, Inc.

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Ventas, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external reporting purposes in accordance with generally accepted accounting principles in the United States.

Management, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2006 was effective. All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Therefore, the Company's internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

Ventas, Inc.

We have audited the accompanying consolidated balance sheets of Ventas, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index. These financial statements and schedule are the responsibility of management. Our responsibility is to express an opinion on these financial statements and schedule 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ventas, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2006 Ventas, Inc. changed its method of accounting for stock-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Ventas, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

February 16, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Stockholders and Board of Directors

Ventas, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Ventas, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Ventas, Inc.'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Ventas, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Ventas, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 16, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

February 16, 2007

Table of Contents**VENTAS, INC.****CONSOLIDATED BALANCE SHEETS****As of December 31, 2006 and 2005****(In thousands, except per share amounts)**

	2006	2005
Assets		
Real estate investments:		
Land	\$ 357,804	\$ 295,363
Buildings and improvements	3,350,033	2,732,533
	3,707,837	3,027,896
Accumulated depreciation	(659,584)	(541,346)
Net real estate property	3,048,253	2,486,550
Loans receivable, net	35,647	39,924
Net real estate investments	3,083,900	2,526,474
Cash and cash equivalents	1,246	1,641
Escrow deposits and restricted cash	80,039	59,667
Deferred financing costs, net	18,415	17,581
Notes receivable-related parties	2,466	2,841
Other	67,734	30,914
Total assets	\$ 3,253,800	\$ 2,639,118
Liabilities and stockholders' equity		
Liabilities:		
Senior notes payable and other debt	\$ 2,329,053	\$ 1,802,564
Deferred revenue	8,194	10,540
Accrued dividend	41,949	37,343
Accrued interest	19,929	14,418
Accounts payable and other accrued liabilities	114,405	76,540
Deferred income taxes	30,394	30,394
Total liabilities	2,543,924	1,971,799
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10,000 shares authorized, unissued		
Common stock, \$0.25 par value; authorized 180,000 shares; 106,137 and 103,523 shares issued at December 31, 2006 and 2005, respectively	26,545	25,927
Capital in excess of par value	766,470	692,650
Unearned compensation on restricted stock		(713)
Accumulated other comprehensive income (loss)	1,037	(143)
Retained earnings (deficit)	(84,176)	(50,402)
Total stockholders' equity	709,876	667,319
Total liabilities and stockholders' equity	\$ 3,253,800	\$ 2,639,118

See accompanying notes.

Table of Contents**VENTAS, INC.****CONSOLIDATED STATEMENTS OF INCOME****For the Years Ended December 31, 2006, 2005 and 2004****(In thousands, except per share amounts)**

	2006	2005	2004
Revenues:			
Rental income	\$ 418,449	\$ 324,719	\$ 232,076
Interest income from loans receivable	7,014	5,001	2,958
Interest and other income	2,886	3,268	987
Total revenues	428,349	332,988	236,021
Expenses:			
Interest	141,094	105,581	66,105
Depreciation and amortization	119,653	87,848	48,865
Property-level operating expenses	3,171	2,576	1,337
General, administrative and professional fees (including non-cash stock-based compensation expense of \$3,046, \$1,971 and \$1,664 for the years ended December 31, 2006, 2005 and 2004, respectively)	26,136	25,075	18,124
Rent reset costs	7,361		
Reversal of contingent liability	(1,769)		
Loss on extinguishment of debt	1,273	1,376	1,370
Net gain on swap breakage		(981)	
Net proceeds from litigation settlement		(15,909)	
Contribution to charitable foundation		2,000	
Total expenses	296,919	207,566	135,801
Operating income	131,430	125,422	100,220
Net loss on real estate disposals		(175)	
Income before discontinued operations	131,430	125,247	100,220
Discontinued operations		5,336	20,680
Net income	\$ 131,430	\$ 130,583	\$ 120,900
Earnings per common share:			
Basic:			
Income before discontinued operations	\$ 1.26	\$ 1.32	\$ 1.20
Net income	\$ 1.26	\$ 1.37	\$ 1.45
Diluted:			
Income before discontinued operations	\$ 1.25	\$ 1.31	\$ 1.19
Net income	\$ 1.25	\$ 1.36	\$ 1.43
Shares used in computing earnings per common share:			
Basic	104,206	95,037	83,491
Diluted	104,731	95,775	84,352

See accompanying notes.

Table of Contents**VENTAS, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****For the Years Ended December 31, 2006, 2005, and 2004****(In thousands, except per share amounts)**

	Common Stock Par Value	Capital in Excess of Par Value	Unearned Compensation on Restricted Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock	Total
Balance at January 1, 2004	\$ 20,652	\$ 162,466	\$ (748)	\$ (18,294)	\$ (56,790)	\$ (50,971)	\$ 56,315
Comprehensive Income:							
Net income					120,900		120,900
Unrealized loss on interest rate swap				(1,965)			(1,965)
Reclassification adjustment for realized loss on interest rate swap included in net income during the year				11,145			11,145
Comprehensive income							130,080
Dividends to common stockholders \$1.30 per share					(109,407)		(109,407)
Issuance of common stock	631	63,575					64,206
Issuance of common stock for stock plans		(16,854)				34,653	17,799
Grant of restricted stock, net of forfeitures		(284)	(1,092)			1,400	24
Amortization of restricted stock grants			1,207				1,207
Balance at December 31, 2004	21,283	208,903	(633)	(9,114)	(45,297)	(14,918)	160,224
Comprehensive Income:							
Net income					130,583		130,583
Unrealized gain on interest rate swap				5,754			5,754
Reclassification adjustment for realized loss on interest rate swap included in net income during the year				3,217			3,217
Comprehensive income							139,554
Dividends to common stockholders \$1.44 per share					(135,688)		(135,688)
Issuance of common stock	4,561	485,285					489,846
Issuance of common stock for stock plans	83	(1,368)				13,048	11,763
Grant of restricted stock, net of forfeitures		(170)	(1,330)			1,870	370
Amortization of restricted stock grants			1,250				1,250
Balance at December 31, 2005	25,927	692,650	(713)	(143)	(50,402)		667,319
Comprehensive Income:							
Net income					131,430		131,430
Unrealized gain on interest rate swap				810			810
Reclassification adjustment for realized gain on interest rate swap included in net income during the year				(359)			(359)
Unrealized gain on marketable securities				729			729
Comprehensive income							132,610
Dividends to common stockholders \$1.58 per share					(165,204)		(165,204)
Issuance of common stock	427	64,573					65,000
Issuance of common stock for stock plans	191	9,545				170	9,906
Grant of restricted stock, net of forfeitures		415				(170)	245
Reclassification of unearned compensation on restricted stock to capital in excess of par value		(713)	713				

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Balance at December 31, 2006	\$ 26,545	\$ 766,470	\$	\$	1,037	\$ (84,176)	\$	\$ 709,876
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See accompanying notes.

Table of Contents**VENTAS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Years Ended December 31, 2006, 2005 and 2004****(In thousands)**

	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 131,430	\$ 130,583	\$ 120,900
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation (including amounts in discontinued operations) and amortization	119,653	88,002	49,238
Amortization of deferred financing costs	3,253	3,891	3,895
Stock-based compensation	3,046	1,971	1,664
Straight-lining of rental income	(19,963)	(14,287)	(2,462)
Amortization of deferred revenue	(2,412)	(3,497)	(2,577)
Reversal of contingent liability	(1,769)		
Loss on extinguishment of debt	1,273	1,358	1,370
Gain on sale of assets (including amounts in discontinued operations)		(4,939)	(19,428)
Net gain on sale of marketable equity securities	(1,379)		
Net gain on swap breakage		(981)	
Other	488	(2,698)	(2,016)
Changes in operating assets and liabilities:			
(Increase) decrease in escrow deposits and restricted cash	(29,789)	10,120	(8,965)
Increase in other assets	(11,895)	(5,396)	(102)
Increase in accrued interest	5,511	5,675	2,922
Increase in accounts payable and other accrued liabilities	41,420	13,962	5,519
Net cash provided by operating activities	238,867	223,764	149,958
Cash flows from investing activities:			
Net investment in real estate property	(490,679)	(589,552)	(323,931)
Proceeds from real estate disposals		1,416	21,100
Investment in loans receivable	(191,068)	(47,333)	
Proceeds from loans receivable	195,411	20,274	3,580
Escrow funds returned from an Internal Revenue Code Section 1031 exchange	9,902		
Purchase of marketable equity securities	(5,530)		
Other	(10)	154	556
Net cash used in investing activities	(481,974)	(615,041)	(298,695)
Cash flows from financing activities:			
Net change in borrowings under unsecured revolving credit facility	57,000		
Net change in borrowings under secured revolving credit facility	(89,200)	50,200	39,000
Proceeds from debt	449,005	600,000	125,000
Repayment of debt	(16,084)	(231,988)	(67,011)
Payment of deferred financing costs	(4,876)	(9,279)	(5,350)
Issuance of common stock	831	101,964	64,206
Proceeds from stock option exercises	6,634	6,819	17,676
Payment of swap breakage fee		(2,320)	
Cash distributions to stockholders	(160,598)	(125,843)	(103,523)
Net cash provided by financing activities	242,712	389,553	69,998
Net decrease in cash and cash equivalents	(395)	(1,724)	(78,739)
Cash and cash equivalents at beginning of year	1,641	3,365	82,104
Cash and cash equivalents at end of year	\$ 1,246	\$ 1,641	\$ 3,365

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Supplemental disclosure of cash flow information:

Interest paid including swap payments and receipts	\$ 133,653	\$ 100,362	\$ 62,530
Supplemental schedule of non-cash activities:			
Assets and liabilities assumed from acquisitions:			
Real estate investments	\$ 189,262	\$ 931,571	\$ 103,603
Escrow deposits and restricted cash	485	34,144	9,170
Other assets acquired	350	1,560	206
Debt assumed	125,633	541,174	105,627
Other liabilities	(536)	33,275	7,352
Issuance of common stock	65,000	392,826	

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business

Ventas, Inc. (together with its subsidiaries, unless otherwise indicated or except where the context otherwise requires, we, us or our) is a healthcare real estate investment trust (REIT) with a geographically diverse portfolio of seniors housing and healthcare-related properties in the United States. As of December 31, 2006, this portfolio consisted of 172 seniors housing communities, 218 skilled nursing facilities, 43 hospitals and 19 other properties in 43 states. Except with respect to our medical office buildings, we lease these properties to healthcare operating companies under triple-net or absolute net leases. Kindred Healthcare, Inc. (together with its subsidiaries, Kindred) leased 225 of our properties and Brookdale Senior Living Inc. (together with its subsidiaries, which include Brookdale Living Communities, Inc. (Brookdale) and Alterra Healthcare Corporation (Alterra), Brookdale Senior Living) leased 83 of our properties as of December 31, 2006. We also have real estate loan investments relating to seniors housing and healthcare-related third parties as of December 31, 2006.

We conduct substantially all of our business through our wholly owned subsidiaries, Ventas Realty, Limited Partnership (Ventas Realty) and PSLT OP, L.P. (PSLT OP), and ElderTrust Operating Partnership (ETOP), in which we own substantially all of the partnership units. Our primary business consists of financing, owning and leasing seniors housing and healthcare-related properties and leasing or subleasing those properties to third parties.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Ventas, Inc. and all of its direct and indirect wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of rental revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

Investments in real estate properties are recorded at cost. We account for acquisitions using the purchase method. The cost of the properties acquired is allocated among tangible land, buildings and equipment and recognized intangibles based upon estimated fair values in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. We estimate fair values of the components of assets acquired as of the acquisition date or engage a third-party appraiser as necessary. Recognized intangibles, if any, include the value of acquired lease contracts and related customer relationships.

Our method for determining fair value varies with the categorization of the asset acquired. We estimate the fair value of our buildings on an as-if-vacant basis, and depreciate the building value over the estimated remaining life of the building. We determine the allocated value of other fixed assets based upon the replacement cost and depreciate such value over their estimated remaining useful lives. We determine the value of land either based on real estate tax assessed values in relation to the total value of the asset, internal analyses of recently acquired and existing comparable properties within our portfolio or third-party appraisals. The fair value of in-place leases, if any, reflects (i) above and below market leases, if any, determined by discounting the

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

difference between the estimated current market rent and the in-place rentals, the resulting intangible asset of which is amortized to rental revenue over the remaining life of the associated lease plus any fixed rate renewal periods, if applicable, (ii) the estimated value of the cost to obtain tenants, including tenant allowances, tenant improvements and leasing commissions, which is amortized over the remaining life of the associated lease, and (iii) an estimated value of the absorption period to reflect the value of the rents and recovery costs foregone during a reasonable lease-up period, as if the acquired space was vacant, which is amortized over the remaining life of the associated lease. We also estimate the value of tenant or other customer relationships acquired by considering the nature and extent of existing business relationships with the tenant, growth prospects for developing new business with such tenant, such tenant's credit quality, expectations of lease renewals with such tenant, and the potential for significant, additional future leasing arrangements with such tenant. We amortize such value, if any, over the expected term of the associated arrangements or leases, which would include the remaining lives of the related leases and any expected renewal periods.

Fixtures and equipment, with a net book value of \$108.8 million and \$131.4 million at December 31, 2006 and 2005, respectively, is included in net real estate property on the Consolidated Balance Sheets. Depreciation is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 50 years for buildings and improvements and three to ten years for fixtures and equipment.

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, primarily consisting of our investments in real estate, for impairment indicators in accordance with SFAS No. 144 Accounting for the Impairment and Disposal of Long-Lived Assets. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. We adjust the net book value of leased properties and other long-lived assets to fair value, if the sum of the expected future cash flows and sales proceeds is less than book value. An impairment loss is recognized at the time we make any such determination. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted. We did not record any impairment charges for the years ended December 31, 2006, 2005 and 2004.

Loans and Other Amounts Receivable from Third Parties

Loans receivable are stated at the unpaid principal balance net of any deferred origination fees. Net deferred origination fees are comprised of loan fees collected from the borrower net of certain direct costs. Net deferred origination fees are amortized over the contractual life of the loan using the level yield method. Interest income on the loans receivable is recorded as earned. We evaluate the collectibility of loans and other amounts receivable from third parties based on, a number of factors, including (i) corporate and facility-level financial and operational reports, (ii) compliance with the financial covenants set forth in the borrowing or lease agreement (iii) the financial stability of the applicable borrower or tenant and any guarantor and (iv) the payment history of the borrower or tenant. Our level of reserves, if any, for loans and other amounts receivable from third parties fluctuates depending upon all of the factors previously mentioned. No reserves were recorded against our loans receivable balance at December 31, 2006 and 2005.

Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity date of three months or less when purchased. These investments are stated at cost which approximates fair value.

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Escrow Deposits and Restricted Cash

Escrow deposits consist of amounts held by lenders or us to provide for future real estate tax and insurance expenditures and tenant improvements. Restricted cash represents amounts committed for security deposits paid to us by third parties and cash restricted due to mortgages insured by the U.S. Department of Housing and Urban Development (HUD) financing requirements on certain properties.

Deferred Financing Costs

Deferred financing costs are amortized as a component of interest expense over the terms of the related borrowings using a method that approximates a level yield, and are net of accumulated amortization of approximately \$7.5 million and \$5.9 million at December 31, 2006 and 2005, respectively. Approximately \$3.3 million of amortized costs were included in interest expense for the year ended December 31, 2006, and \$3.9 million for each of the years ended December 31, 2005 and 2004.

Marketable Equity Securities

We record marketable equity securities as available-for-sale in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. These securities are recorded at fair market value, with unrealized gains and losses recorded in stockholder's equity as a component of accumulated other comprehensive income on the Consolidated Balance Sheets. Gains or losses on securities sold are based on the specific identification method and reported in interest and other income on the Consolidated Statements of Income. During the year ended December 31, 2006, we realized gains of \$1.4 million related to the sale of various securities. Proceeds from the sale of the securities were received in January 2007 in the amount of \$5.0 million, which was recorded as a receivable in other assets on the Consolidated Balance Sheet as of December 31, 2006. There were no gains or losses realized for the years ended December 31, 2005 and 2004.

Derivative Instruments

As discussed in Note 8 Borrowing Arrangements, we use derivative instruments to protect against the risk of interest rate movements on future cash flows under our variable rate debt agreements. Derivative instruments are reported at fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives deemed to be eligible for hedge accounting are reported in accumulated other comprehensive income exclusive of ineffectiveness amounts which are reported in interest expense. As of December 31, 2006, a \$0.8 million net unrealized gain on the derivatives is included in accumulated other comprehensive loss. Changes in fair value of derivative instruments that are not eligible for hedge accounting are reported in the Consolidated Statements of Income. See Note 9 Fair Values of Financial Instruments. Fair values of derivative instruments are verified with a third-party consultant.

Fair Values of Financial Instruments

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

Cash and cash equivalents: The carrying amount of cash and cash equivalents reported in the Consolidated Balance Sheets approximates fair value because of the short maturity of these instruments.

Loans receivable: The fair value of loans receivable is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Notes receivable-related parties: The fair value of the notes receivable-related parties is estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.

Interest rate swap agreement: The fair value of the interest rate swap agreement is based on rates being offered for similar arrangements which consider forward yield curves and discount rates.

Senior notes payable and other debt: The fair values of borrowings under fixed rate agreements are estimated by discounting the future cash flows using current interest rates at which similar borrowings could be made by us.

Revenue Recognition

Certain of our leases, excluding the Kindred Master Leases (as defined below) but including the majority of our leases with Brookdale Senior Living, provide for periodic and determinable increases in base rent. Base rental revenues under these leases are recognized on a straight-line basis over the terms of the applicable lease. Income on our straight-line revenue is recognized when collectibility is reasonably assumed. In the event we determine that collectibility of straight-line revenue is not reasonably assured, we establish an allowance for estimated losses. Recognizing rental income on a straight-line basis results in recognized revenue exceeding cash amounts contractually due from our tenants during the first half of the term for leases that have straight-line treatment. The cumulative excess is included in other assets, net of allowances on our Consolidated Balance Sheets and totaled \$37.1 million and \$17.2 million at December 31, 2006 and 2005, respectively.

Certain of our other leases, including the Kindred Master Leases, provide for an annual increase in rental payments only if certain revenue parameters or other contingencies are met. We recognize the increased rental revenue under these leases only if the revenue parameters or other contingencies are met rather than on a straight-line basis over the term of the applicable lease. We recognize income from rent, lease termination fees and other income once all of the following criteria are met in accordance with the Securities and Exchange Commission (the Commission) Staff Accounting Bulletin 104: (i) the agreement has been fully executed and delivered; (ii) services have been rendered; (iii) the amount is fixed or determinable; and (iv) the collectibility is reasonably assured.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)), which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). SFAS No. 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion No. 25). Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123, except that SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative under SFAS No. 123(R). We adopted SFAS No. 123(R) on January 1, 2006. See Note 10 Stock-Based Compensation.

Gain on Sale of Facilities

We recognize sales of facilities only upon the closing of the transaction with the purchaser. Payments received from purchasers prior to closing are recorded as deposits and classified as other assets in the Consolidated Balance Sheets. Gains on facilities sold are recognized using the full accrual method upon closing when the collectibility of the sales price is reasonably assured, we are not obligated to perform significant

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

activities after the sale to earn the profit, we have received adequate initial investment from the buyer, and other profit recognition criteria have been satisfied. Gains may be deferred in whole or in part until the sales satisfy the requirements of gain recognition on sales of real estate under SFAS No. 66, Accounting for Sales of Real Estate.

Federal Income Tax

As we have elected to be treated as a REIT under the applicable provisions of the Internal Revenue Code of 1986, as amended (the Code), no provision has been made from federal income tax purposes. See Note 11 Income Taxes.

Discontinued Operations

The results of operations and gain/(loss) on real estate properties sold or held for sale are reflected in the Consolidated Statements of Income as discontinued operations for all periods presented. Interest expense allocated to discontinued operations has been estimated based on a proportional allocation of rental income among all of our properties.

Segment Reporting

We operate through one reportable segment: investment in real estate. Our primary business consists of financing, owning and leasing seniors housing and healthcare-related properties and leasing or subleasing those properties to third parties. Substantially all of our leases are triple-net leases, which require the tenants to pay all property-related expenses. With the exception of our medical office buildings, we do not operate our properties nor do we allocate capital to maintain the properties. Substantially all depreciation and interest expense reflected in the Consolidated Statements of Income relate to the ownership of our investment in real estate.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value and provides guidance for measuring fair value and the necessary disclosures. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 will be effective for us beginning January 1, 2008. We have not yet determined the impact, if any, the adoption of this new accounting pronouncement is expected to have on our Consolidated Financial Statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for income taxes when it is uncertain how an income or expense item should be treated on an income tax return. FIN 48 describes when an uncertain tax item should be recorded in the financial statements and for how much and provides guidance on recording interest and penalties and accounting and reporting for income taxes in interim periods. FIN 48 was effective beginning January 1, 2007. We are evaluating FIN 48 and have not yet determined the impact the adoption will have on our Consolidated Financial Statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Revenues from Properties

Approximately 51.6%, 59.8% and 81.5% of our total revenues for the years ended December 31, 2006, 2005 and 2004, respectively, were derived from our four master lease agreements with Kindred (the Kindred Master Leases).

On June 7, 2005, we completed the acquisition of Provident Senior Living Trust (Provident) (see Note 5 Acquisitions), which leased all of its properties to affiliates of Brookdale and Alterra. In September 2005, Brookdale was combined, through a series of mergers, with Alterra under a new holding company, Brookdale Senior Living. As a result of this acquisition, Brookdale Senior Living became a significant source of our total revenues. Approximately 28.6% and 22.9% of our total revenues for the years ended December 31, 2006 and 2005, respectively, were derived from our lease agreements with Brookdale Senior Living.

Each of Kindred and Brookdale Senior Living is subject to the reporting requirements of the Commission and is required to file with the Commission annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Kindred and Brookdale Senior Living contained or referred to in this Annual Report on Form 10-K is derived from filings made by Kindred or Brookdale Senior Living, as the case may be, with the Commission or other publicly available information, or has been provided to us by Kindred or Brookdale Senior Living. We have not verified this information either through an independent investigation or by reviewing Kindred's or Brookdale Senior Living's public filings. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you that all of this information is accurate. Kindred's and Brookdale Senior Living's filings with the Commission can be found at the Commission's website at www.sec.gov. We are providing this data for informational purposes only, and you are encouraged to obtain Kindred's and Brookdale Senior Living's publicly available filings from the Commission.

Kindred Master Leases and Rent Reset Process

Each of the Kindred Master Leases is a triple-net lease pursuant to which Kindred is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. The properties leased to Kindred pursuant to the Kindred Master Leases are grouped into renewal bundles, with each bundle containing a varying number of diversified properties. All properties within a bundle have primary terms ranging from ten to 15 years, commencing May 1, 1998, and, provided certain conditions are satisfied, are subject to three five-year renewal terms. Seven bundles containing 64 facilities are scheduled to expire on April 30, 2008 if not renewed by Kindred on or before April 30, 2007. Kindred has stated that disciplined M&A analysis [is] being applied by Kindred to evaluate each bundle.

Under each Kindred Master Lease, the aggregate annual rent is referred to as Base Rent (as defined in the applicable Kindred Master Lease). Base Rent escalates on May 1 of each year at a specified rate over the Prior Period Base Rent (as defined in the applicable Kindred Master Lease) contingent upon the satisfaction of the specified facility revenue parameters.

On May 9, 2006, we initiated our one-time right under each of the Kindred Master Leases to increase the annual rent on the 225 properties we lease to Kindred to Fair Market Rental levels effective July 19, 2006, using a predetermined process described in the Kindred Master Leases.

On October 6, 2006, the final appraisers designated by us and Kindred determined that the aggregate Fair Market Rental for our properties is approximately \$239.0 million, representing an annualized increase of \$33.1 million over the existing Base Rent under the Kindred Master Leases. The final appraisers also specified that the

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

market annual rent escalator is 2.7% under Kindred Master Leases 1, 3 and 4. Under Kindred Master Lease 2, the annual rent escalation will be based on year-over-year changes in the Consumer Price Index, with a floor of 2.25% and a ceiling of 4%. Annual rental escalations under all of the Kindred Master Leases are contingent upon certain facility revenue parameters being satisfied.

On October 12, 2006, we exercised our election to increase aggregate Base Rent under all four Kindred Master Leases by \$33.1 million per year, as determined by the final appraisers, and paid to Kindred a \$4.6 million reset fee, as required by the Kindred Master Leases. The \$4.6 million reset fee is being amortized on a pro-rata facility-by-facility basis through the end of the facility's initial lease term. Amortization for the period from July 19, 2006 through December 31, 2006 was approximately \$0.7 million. Under the terms of the Kindred Master Leases, the new, increased Base Rent was effective as of July 19, 2006, and the revised rent escalators will apply commencing May 1, 2007. During 2006, we recognized \$15.0 million in rental income for the additional rent resulting from the Rent Reset under the Kindred Master Leases for the period from July 19, 2006 through December 31, 2006.

In connection with the Rent Reset process, we incurred approximately \$7.4 million of one-time costs which we expensed during 2006. These costs included fees of the final appraisers and third party experts, consulting fees and legal fees and expenses. This expense is reflected as rent reset costs on our Condensed Consolidated Statements of Income for the year ended December 31, 2006.

Brookdale Senior Living Leases

Each of our leases with subsidiaries of Brookdale Senior Living is a triple-net lease pursuant to which the tenant is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. In addition, the tenants are required to comply with the terms of the mortgage financing documents affecting the properties. Our leases with Brookdale have primary terms of 15 years, commencing either January 28, 2004 (in the case of 15 Grand Court properties we acquired in early 2004) or October 19, 2004 (in the case of the properties we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two ten-year renewal terms. Our leases with Alterra also have primary terms of 15 years, commencing either October 20, 2004 or December 16, 2004 (both in the case of properties we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two five-year renewal terms.

Under the terms of the Brookdale leases assumed in connection with the Provident acquisition, Brookdale is obligated to pay base rent, which escalates on January 1 of each year, by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) 3%. Under the terms of the Brookdale leases with respect to the Grand Court properties, Brookdale is obligated to pay base rent, which escalates on February 1 of each year, by an amount equal to the greater of (i) 2% or (ii) 75% of the increase in the Consumer Price Index during the immediately preceding year. Under the terms of the Alterra leases, Alterra is obligated to pay base rent, which escalates either on January 1 or November 1 of each year by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) 2.5%. We recognize rent revenue under the Brookdale and Alterra leases on a straight-line basis. See Note 12 Commitments and Contingencies.

Table of Contents**VENTAS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The future contracted minimum rentals, excluding contingent rent escalations, but with straight-line rents where applicable, for all of our leases are as follows:

	Kindred	Brookdale Senior Living (in thousands)	Other	Total
2007	\$ 238,971	\$ 103,676	\$ 115,687	\$ 458,334
2008	195,750	106,509	116,316	418,575
2009	174,139	109,421	113,894	397,454
2010	93,144	112,415	112,898	318,457
2011	52,646	115,491	112,238	280,375
Thereafter	70,195	1,021,913	789,440	1,881,548
Total	\$ 824,845	\$ 1,569,425	\$ 1,360,473	\$ 3,754,743

Note 4 Concentration of Credit Risk

As of December 31, 2006, approximately 27.4% and 37.4% of our properties, based on their original cost, were operated by Kindred and Brookdale Senior Living, respectively, and approximately 62.8% and 25.7% of our properties, based on their original cost, were seniors housing properties and skilled nursing facilities, respectively. Our remaining properties consist of hospitals, medical office buildings and other properties. Our properties are located in 43 states, with properties in two states accounting for more than 10% of total revenues for the years ended December 31, 2006 and 2005. For the year ended December 31, 2004, properties in only one state accounted for more than 10% of total revenues.

Because we lease a substantial portion of our properties to Kindred and Brookdale Senior Living and Kindred and Brookdale Senior Living are the primary source of our total revenues, their financial condition and ability and willingness to satisfy their obligations under their respective leases and certain other agreements with us will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. We cannot assure you that Kindred or Brookdale Senior Living will have sufficient assets, income and access to financing to enable it to satisfy its obligations under its respective leases and other agreements with us, and any inability or unwillingness or its part to do so would have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and on our ability to make distributions to our stockholders as required to maintain our status as a REIT.

Note 5 Acquisitions

The following is a summary of our more significant acquisitions in 2006, 2005 and 2004. The primary reason for these acquisitions was to invest in seniors housing and healthcare properties with an expected yield on investment, as well as to diversify our properties and revenue base and reduce our dependence on Kindred for rental revenue.

Senior Care

On November 7, 2006, we completed the acquisition of all of the outstanding equity interests of VSCRE Holdings, LLC (VSCRE) and all of the issued and outstanding beneficial interests of IPC AL Real Estate Investment Trust (IPC) in a transaction with SCRE Investments, Inc. (SCRE) and IPC Equity Holdings Limited. The aggregate consideration for the transaction was \$602.4 million, consisting of approximately \$422.6 million in cash, the assumption of \$114.8 million of mortgage debt that was repaid in January 2007 and 1,708,279 shares of our common stock.

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IPC and VSCRE, an entity recently formed for the purpose of acquiring real estate assets prior to its acquisition by us, consist of a portfolio of 64 senior care properties, comprised of four separate asset groups previously owned by 14 different predecessor entities. As a result of the consummation of the transaction, we, through IPC and VSCRE, acquired 40 assisted living communities, four multi-level retirement communities, 18 skilled nursing facilities and two rehabilitation hospitals in 15 states.

Following the acquisition of IPC and VSCRE, the 64 properties are being leased to affiliates of Senior Care, Inc. (Senior Care), an affiliate of SCRE, pursuant to the terms of a triple-net master lease having an initial term of 15 years and two five-year extensions. The tenants' obligations under the master lease are guaranteed, directly or indirectly, by the tenants' parent, Senior Care Operations Holdings, LLC, and its parent, Senior Care. At December 31, 2006, the aggregate annualized contractual cash rent expected from the Senior Care properties was \$46.8 million.

In connection with this acquisition, we have committed to purchase two additional assisted living communities for approximately \$18.5 million subject to approval of HUD of the loan assumptions by us relating to \$9.0 million of mortgage debt encumbering those assets and satisfaction of certain other conditions. We expect to acquire these two assets in the first half of 2007.

Other 2006 Acquisitions

During 2006, we acquired eight seniors housing communities in five separate transactions for an aggregate purchase price of \$74.3 million, including assumed debt of \$10.8 million at the time of the acquisitions. The seniors housing communities are leased under triple-net leases, each having initial terms ranging from ten to 15 years and initially providing aggregate, annual cash base rent of approximately \$6.2 million, subject to escalation as provided in the leases.

Provident

On June 7, 2005, we completed the acquisition of Provident in a transaction valued at approximately \$1.2 billion. Provident was formed as a Maryland real estate investment trust in March 2004 and owned seniors living properties located in the United States. Pursuant to the Provident acquisition, we acquired 68 independent and assisted living facilities in 19 states comprised of approximately 6,819 residential living units, all of which are leased to affiliates of Brookdale and Alterra pursuant to triple-net leases with renewal options. As of December 31, 2006, the aggregate annualized contractual cash rent expected from the Provident properties was approximately \$89.2 million.

We funded the cash portion of the purchase price for the Provident acquisition, which was approximately \$231.0 million, and repaid all outstanding borrowings under Provident's credit facility at closing from a combination of net proceeds from the sale of \$350.0 million aggregate principal amount of senior notes issued by Ventas Realty and a wholly owned subsidiary, Ventas Capital Corporation (collectively, the Issuers), and borrowings under our revolving credit facility. Additionally, we issued approximately 15.0 million shares of our common stock and share equivalents to Provident equity holders as part of the purchase price for the Provident acquisition. We also assumed approximately \$459.4 million of property-level mortgage debt.

Other 2005 Acquisitions

During 2005, we acquired 23 seniors housing communities, an adjacent parcel of land and one hospital for an aggregate purchase price of \$278.2 million, including assumed debt of \$74.4 million at the time of the

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VENTAS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

acquisitions. The seniors housing communities and the hospital are leased under triple-net leases, each having initial terms ranging from ten to 15 years and initially providing aggregate, annual cash base rent of approximately \$23.9 million, subject to escalation as provided in the leases.

Also during 2005, we acquired three medical office buildings for an aggregate purchase price of \$13.0 million, including assumed debt of \$7.3 million at the time of the acquisitions. These buildings are leased to various tenants under leases having various remaining terms and initially providing aggregate, annual cash base rent of approximately \$1.7 million, subject to escalation as provided in the leases. We have engaged third parties to manage the operations of the medical office buildings.

2004 Acquisitions

In February 2004, we acquired all of the outstanding common shares of ElderTrust in an all-cash transaction valued at \$184.0 million. At the close of the ElderTrust transaction, ElderTrust had approximately \$33.5 million in unrestricted and restricted cash. After transaction costs, the net investment of the ElderTrust transaction was approximately \$160.0 million. The ElderTrust transaction added 18 properties to our portfolio. The ElderTrust properties are leased to various operators under leases having remaining terms at the time of the acquisition primarily ranging from four to 11 years and initially providing aggregate, annual cash base rent of approximately \$16.4 million, subject to escalation as provided in the leases. Concurrent with the consummation of the ElderTrust transaction, we also purchased all of the limited partnership units in ETOP then held by third parties at \$12.50 per unit, other than 31,455 Class C Units in ETOP (which remain outstanding). ETOP owns directly or indirectly all of the ElderTrust properties.

During 2004, we acquired 15 independent and assisted living properties for an aggregate purchase price of \$157.4 million. We lease these properties to affiliates of Brookdale pursuant to a master lease containing ten properties and five separate single property leases, all of which are triple-net leases guaranteed by Brookdale having an initial term of 15 years and initially providing aggregate, annual cash base rent of approximately \$14.5 million, subject to escalation as provided in the leases.

Additionally, during 2004 we acquired four seniors housing communities and two skilled nursing facilities for an aggregate purchase price of \$93.3 million. The properties are leased under triple-net leases, having initial terms of ten to 15 years and providing aggregate, annual cash base rent of approximately \$8.9 million, subject to escalation as provided in the leases.

We also acquired five medical office buildings, for an aggregate purchase price of \$15.9 million. These buildings are leased to various tenants under leases having remaining terms ranging from four to six years and initially providing for aggregate, annual cash base rent of approximately \$1.9 million, subject to escalation as provided in the leases. We have engaged third parties to manage the operations of the medical office buildings.

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The transactions completed during the year ended December 31, 2006 were accounted for under the purchase method. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Such estimates are subject to refinement as additional valuation information is received.

	Senior Care	Other (in thousands)	Total
Land	\$ 57,420	\$ 5,016	\$ 62,436
Buildings and improvements	548,643	69,339	617,982
Escrow deposits and restricted cash		485	485
Total assets acquired	606,063	74,840	680,903
Notes payable and other debt	114,785	10,848	125,633
Other liabilities		13	13
Total liabilities assumed	114,785	10,861	125,646
Net assets acquired	491,278	63,979	555,257
Total equity issued	65,000		65,000
Total cash used	\$ 426,278	\$ 63,979	\$ 490,257

Unaudited Pro Forma

The following table illustrates the effect on net income and earnings per share as if we had consummated our 2006, 2005 and 2004 acquisitions and our issuances of common stock as of the beginning of each of the three years ended December 31, 2006:

	For the Year Ended December 31, 2006 2005 2004 (in thousands, except per share amounts)		
Revenues	\$ 466,408	\$ 443,608	\$ 431,998
Expenses	327,488	299,377	311,227
Income before discontinued operations	138,920	144,056	120,771
Net income	138,920	149,392	141,451
Earnings per common share:			
Basic:			
Income before discontinued operations	\$ 1.31	\$ 1.37	\$ 1.16
Net income	\$ 1.31	\$ 1.42	\$ 1.36
Diluted:			
Income before discontinued operations	\$ 1.31	\$ 1.36	\$ 1.15
Net income	\$ 1.31	\$ 1.41	\$ 1.35
Shares used in computing earnings per common share:			
Basic	105,914	104,861	103,862
Diluted	106,439	105,599	104,723

Note 6 Dispositions

We did not make any dispositions during the year ended December 31, 2006. In 2005, we completed the sale of one seniors housing property for approximately \$9.9 million in net cash proceeds and recognized a net

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gain on sale of approximately \$5.1 million. In addition, the tenant paid us a lease termination fee of approximately \$0.2 million. These net proceeds were held in escrow for use in an Internal Revenue Code Section 1031 exchange at December 31, 2005 and released back to us during 2006, as no like-kind exchange was consummated. In 2004, we completed the sale of two facilities for \$21.1 million in net cash proceeds and recognized a net gain on the sale of \$19.4 million. In addition, the tenant paid us lease termination fees approximating \$0.5 million.

Set forth below is a summary of the results of operations of the facilities sold during the years ended December 31, 2005 and 2004:

	2005	2004
	(in thousands)	
Revenues:		
Rental income	\$ 837	\$ 2,227
Interest and other income	165	500
Expenses:		
Interest	627	1,102
Depreciation	153	373
Income before gain on sale of real estate	222	1,252
Gain on sale of real estate	5,114	19,428