VENTAS INC
Form 10-K
February 19, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

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	**61-1055020**

(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

111 S. Wacker Drive, Suite 4800, Chicago, Illinois	**60606**
(Address of Principal Executive Offices)	**(Zip Code)**

(877) 483-6827

(Registrant s Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, 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 x No ¨

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark 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. x

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

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, computed by reference to the closing price of the common stock on June 30, 2009, was approximately $4.6 billion. For purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

As of February 15, 2010, 156,706,398 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 April 30, 2010 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 consolidated 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 (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements regarding our or our tenants , operators , managers or borrowers expected future financial position, results of operations, cash flows, funds from operations, dividends and dividend plans, financing plans, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, merger integration, growth opportunities, dispositions, 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, will, and other similar expr 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 from expectations depending on a variety of factors discussed in our filings with the Securities and Exchange Commission (the Commission). These factors include without limitation:

The ability and willingness of our tenants, operators, borrowers, managers and other third parties to meet and/or perform their obligations under their respective contractual arrangements with us, including, in some cases, their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;

The ability of our tenants, operators, borrowers and managers 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 and other indebtedness;

Our success in implementing our business strategy and our ability to identify, underwrite, finance, 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 as a result of changes in interest rates and other factors;

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

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, and the effect of those changes on our revenues and our ability to access the capital markets or other sources of funds;

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

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

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Final determination of our taxable net income for the year ended December 31, 2009 and for the year ending December 31, 2010;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases and our ability to reposition our properties on the same or better terms in the event such leases expire and are not renewed by our tenants or in the event we exercise our right to replace an existing tenant upon a default;

Risks associated with our senior living operating portfolio, such as factors causing volatility in our operating income and earnings generated by our properties, including without limitation national and regional economic conditions, costs of materials, energy, labor and services, employee benefit costs, insurance costs and professional and general liability claims, and the timely delivery of accurate property-level financial results for those properties;

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 Healthcare, Inc. (together with its subsidiaries, Kindred), and our earnings;

Our ability and the ability of our tenants, operators, borrowers and managers to obtain and maintain adequate liability and other insurance from reputable and financially stable providers;

The impact of increased operating costs and uninsured professional liability claims on the liquidity, financial condition and results of operations of our tenants, operators, borrowers and managers and the ability of our tenants, operators, borrowers and managers to accurately estimate the magnitude of those claims;

The ability and willingness of the lenders under our unsecured revolving credit facilities to fund, in whole or in part, borrowing requests made by us from time to time;

The impact of market or issuer events on the liquidity or value of our investments in marketable securities; and

The impact of any financial, accounting, legal or regulatory issues that may affect us or our major tenants, operators, and managers. Many of these factors, some of which are described in greater detail under Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K, are beyond our control and the control of our management.

Kindred, Brookdale Senior Living and Sunrise Information

Each of Kindred, Brookdale Senior Living Inc. (together with its subsidiaries, which include Brookdale Living Communities, Inc. (Brookdale) and Alterra Healthcare Corporation (Alterra), Brookdale Senior Living) and Sunrise Senior Living, Inc. (together with its subsidiaries, Sunrise) 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, Brookdale Senior Living and Sunrise contained or referred to in this Annual Report on Form 10-K is derived from filings made by Kindred, Brookdale Senior Living or Sunrise, as the case may be, with the Commission or other publicly available information, or has been provided to us by Kindred, Brookdale Senior Living or Sunrise. We have not verified this information either through an independent investigation or by reviewing Kindred s, Brookdale Senior Living s or Sunrise 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, Brookdale Senior Living s and Sunrise 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, Brookdale Senior Living s and Sunrise s publicly available filings from the Commission.

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PART I

ITEM 1. ***Business***

BUSINESS

Overview

We are a REIT with a geographically diverse portfolio of seniors housing and healthcare properties in the United States and Canada. As of December 31, 2009, this portfolio consisted of 505 assets: 244 seniors housing communities, 187 skilled nursing facilities, 40 hospitals and 34 medical office buildings (MOBs) and other properties in 43 states and two Canadian provinces. With the exception of our seniors housing communities that are managed by Sunrise pursuant to long-term management agreements and the majority of our MOBs, we lease our 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 companies or properties as of December 31, 2009.

We conduct substantially all of our business through our wholly owned subsidiaries, Ventas Realty, Limited Partnership (Ventas Realty), PSLT OP, L.P. and Ventas SSL, Inc. Our primary business consists of acquiring, financing and owning seniors housing and healthcare properties and leasing those properties to third parties or operating those properties through independent third party managers.

We were incorporated in Kentucky in 1983, commenced operations in 1985 and reorganized as a Delaware corporation in 1987. We operate through two reportable business segments: triple-net leased properties and senior living operations. See our Consolidated Financial Statements and the related notes, including Note 2 Accounting Policies, included in Part II, Item 8 of this Annual Report on Form 10-K.

Our business strategy is comprised of three principal objectives: (1) portfolio diversification; (2) stable earnings and growth; and (3) maintaining a strong balance sheet and liquidity.

Portfolio of Properties and Other Real Estate Investments

As of December 31, 2009, we had a 100% ownership interest in 439 of our properties. We had 75% to 85% interests in 60 seniors housing communities owned in joint ventures with Sunrise, and we had controlling interests in six MOBs owned through joint ventures with partners who provide management and leasing services for the properties.

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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, 2009:

Portfolio by Type	# of Properties	# of Beds/Units	Revenue	Percent of Total Revenues	Real Estate Investments, at Cost (1)	Percent of Real Estate Investments (1)	Real Estate Investment Per Bed/Unit	Number of Locations (2)
				(Dollars in thousands)				
Seniors Housing and Healthcare Properties								
Seniors housing communities	244	23,242	$ 615,784	65.8%	$ 4,760,278	75.6%	$ 204.8	36
Skilled nursing facilities	187	22,377	176,071	18.8	809,121	12.9	36.2	29
Hospitals	40	3,517	93,564	10.0	345,172	5.5	98.1	17
MOBs (3)	26		35,922	3.8	373,517	5.9	nm	11
Other properties	8	122	981	0.1	7,133	0.1	58.5	1
Total seniors housing and healthcare properties	505	49,258	922,322	98.5%	$ 6,295,221	100.0%		45
Other Real Estate Investments								
Loans and investments			13,107	1.4				
			$ 935,429	99.9%(4)				

nm not meaningful.

(1) Includes assets held for sale at December 31, 2009.
(2) As of December 31, 2009, our seniors housing and healthcare properties were located in 43 states and two Canadian provinces and were operated or managed by 22 different third-party operators or managers.
(3) As of December 31, 2009, 25 of our MOBs were operated by third-party managers, and one MOB was leased under a triple-net lease.
(4) The remainder of our total revenues is interest and other income. Revenues from properties held for sale as of December 31, 2009 are included in this presentation. Revenues from properties sold during 2009 are excluded from this presentation.

Seniors Housing and Healthcare Properties

Seniors Housing Communities. Our seniors housing communities include independent and assisted living communities, and communities providing care for individuals with Alzheimer s disease and other forms of dementia or memory loss. These communities offer residential units on a month-to-month basis primarily to elderly individuals requiring various levels of assistance. Basic services for residents of these communities include housekeeping, meals in a central dining area and group activities organized by the staff with input from the residents. More extensive care and personal supervision, at additional fees, are also available for such needs as eating, bathing, grooming, transportation, limited therapeutic programs and medication administration, all of which encourage the residents to live as independently as possible according to their abilities. These services are often met by home health providers, close coordination with the resident s physician and skilled nursing facilities.

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

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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. 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 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. Our hospitals are freestanding facilities, and we do not own any hospitals within hospitals. We also own two rehabilitation hospitals devoted to the rehabilitation of patients with various neurological, musculoskeletal, orthopedic and other medical conditions following stabilization of their acute medical issues.

Medical Office Buildings. Our MOBs offer office space primarily to physicians and other healthcare businesses. While these properties are similar to commercial office buildings, they require more plumbing, electrical and mechanical systems to accommodate multiple physicians offices and examination rooms that may have sinks in every room, brighter lights and specialized medical equipment. MOBs are typically multi-tenant properties leased to multiple healthcare providers (hospitals and physician practices). As of December 31, 2009, our MOB portfolio consisted of over 1.7 million rentable square feet.

Other Properties. Our other properties consist of 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, 2009, we had $131.9 million of net loans receivable relating to seniors housing and healthcare companies or properties. See Note 6 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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Geographic Diversification

Our portfolio of seniors housing and healthcare properties is broadly diversified by geographic location in the United States and Canada, with properties in only two states comprising more than 10% of our 2009 total revenues (including amounts in discontinued operations from properties held for sale at December 31, 2009). The following table shows our rental income and resident fees and services derived by geographic location for our portfolio of properties for the year ended December 31, 2009:

	Rental Income and Resident Fees and Services	Percent of Total Revenues
	(Dollars in thousands)	
Geographic Location		
California	$ 118,391	12.6%
Illinois	96,377	10.3
Pennsylvania	52,288	5.6
Massachusetts	49,761	5.3
New Jersey	47,149	5.0
Florida	37,943	4.1
Colorado	37,191	4.0
Georgia	34,556	3.7
New York	33,964	3.6
North Carolina	30,139	3.2
Other (33 states)	310,842	33.2
Total U.S	848,601	90.6%
Canada (two Canadian provinces)	73,721	7.9
Total	$ 922,322	98.5%(1)

(1) The remainder of our total revenues is income from loans and investments and interest and other income. Revenues from properties held for sale as of December 31, 2009 are included in this presentation. Revenues from properties sold during 2009 are excluded from this presentation.

Segment Information

As of December 31, 2009, we operated through two reportable business segments: triple-net leased properties and senior living operations. See Note 18 Segment Information of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for more information about our business segments and the geographic diversification of our portfolio of properties.

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.

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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, 2009:

	Skilled Nursing Facilities	Hospitals	Total
States with CON requirements	73.9%	48.6%	65.1%
States without CON requirements	26.1	51.4	34.9
Total	100.0%	100.0%	100.0%

Significant Tenants, Operators and Managers

As of December 31, 2009, approximately 38.9%, 21.8% and 14.1% of our properties, based on the gross book value of real estate investments (including assets held for sale), were managed or operated by Sunrise, Brookdale Senior Living and Kindred, respectively. For the year ended December 31, 2009 (including amounts in discontinued operations): our senior living operations managed by Sunrise accounted for approximately 44.7% of our total revenues and 18.5% of our earnings before interest, taxes, depreciation and amortization (EBITDA); our master lease agreements with Kindred (the Kindred Master Leases) accounted for approximately 26.2% of our total revenues and 38.5% of our total net operating income (NOI); and our leases with Brookdale Senior Living accounted for approximately 12.9% of our total revenues and 19.1% of our total NOI.

Sunrise has managed our senior living operations since April 2007, when we acquired the assets of Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT). We have been party to the Kindred Master Leases since May 1998, as a result of our spin off of Kindred, pursuant to which we transferred to Kindred our previous hospital, nursing facility and ancillary services businesses and retained substantially all of the real property that we then leased to Kindred. Our relationship with Brookdale Senior Living dates back to a lease transaction we entered into in 2004, followed by the various lease agreements with Brookdale Senior Living to which we became a party in connection with our acquisition of Provident Senior Living Trust (Provident) in June 2005 and the subsequent combination of Brookdale and Alterra under Brookdale Senior Living.

Triple-Net Leased Properties

Each of our leases with Kindred and Brookdale Senior Living is a triple-net lease pursuant to which the tenant is required to pay all taxes, utilities and maintenance and repairs related to the properties and to maintain and pay all insurance covering the properties and their operations. In addition, the tenants are required to comply with the terms of the mortgage financing documents, if any, affecting the properties.

Because we lease a substantial portion of our triple-net leased properties to Kindred and Brookdale Senior Living and they are each 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 terms 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 its obligations under its respective leases and other agreements with us, and any inability or unwillingness on 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 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 and/or Brookdale Senior Living will elect to renew their respective leases with us upon expiration of the initial base terms or any renewal terms thereof or that, if such leases are not renewed, that we can reposition the affected properties on the same or better terms. See Risks Factors Risks Arising from Our Business We depend on Kindred and Brookdale Senior Living for a significant portion of our revenues and operating income; Any inability or unwillingness by Kindred or Brookdale Senior Living to satisfy its obligations under its agreements with us could have a Material Adverse Effect on us included in Item 1A of this Annual Report on Form 10-K.

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Kindred Master Leases. 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. The 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. Assuming the specified revenue parameters are met, Base Rent due under the Kindred Master Leases will be approximately $248.5 million from May 1, 2010 to April 30, 2011. See Note 3 Concentration of Credit Risk of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

The properties leased to Kindred pursuant to the Kindred Master Leases are grouped into bundles, with each bundle containing a varying number of properties. All properties within a bundle have primary terms ranging from ten to fifteen years, commencing May 1, 1998, and, provided certain conditions are satisfied, are subject to three five-year renewal terms. Kindred renewed, through April 30, 2013, its leases covering all 57 assets owned by us whose initial base term expired on April 30, 2008. Kindred has also renewed, through April 30, 2015, its leases covering all 109 assets owned by us (one of which we subsequently sold in June 2009) whose initial base term will expire on April 30, 2010. Kindred retains two sequential renewal options for the remaining 108 assets.

The term for each of ten bundles will expire on April 30, 2013 unless Kindred provides us with a renewal notice with respect to those individual bundles on or before April 30, 2012. The ten bundles expiring in 2013 contain an aggregate of 89 properties currently representing $117 million of annual Base Rent. Each bundle covers not less than six properties, including at least one hospital. Kindred is required to continue to perform all of its obligations under the applicable lease for any properties within a bundle that is not renewed until expiration of the term on April 30, 2013, including without limitation, payment of all rental amounts. For any bundles that are not renewed, we will have at least one year to arrange for the repositioning of the applicable properties with new operators. In addition, we own or have the rights to all licenses and CONs at the properties, and Kindred has extensive and detailed obligations to cooperate and ensure an orderly transition of the properties to another operator. We cannot assure you, if Kindred does not renew one or more bundles, that we would be successful in identifying suitable replacement operators or that we will be able to enter into leases with new tenants or operators on terms as favorable to us as our current leases, if at all. See Risk Factors Risks Arising from Our Business We may be unable to reposition our properties on as favorable terms, or at all, if we have to replace any of our tenants or operators, and we may be subject to delays, limitations and expenses in repositioning our assets included in Item 1A of this Annual Report on Form 10-K.

Brookdale Senior Living Leases. Our leases with Brookdale have primary terms of fifteen years, commencing either January 28, 2004 (in the case of fifteen Grand Court properties we acquired in 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 fifteen 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. Brookdale Senior Living guarantees all obligations under these leases, and all of our Brookdale Senior Living leases are cross-defaulted.

Under the terms of the Brookdale leases we 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 our 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 annual contractual cash base rent expected from Brookdale Senior Living for 2010 is approximately $114.1 million, excluding variable

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interest Brookdale is obligated to pay as additional rent based on certain floating rate mortgage debt assumed by us during the Provident acquisition. The aggregate annual contractual rent (computed in accordance with U.S. generally accepted accounting principles (GAAP)), excluding the variable interest, expected from Brookdale Senior Living for 2010 is approximately $121.5 million. See Note 3 Concentration of Credit Risk 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.

Senior Living Operations

We are party to management agreements with Sunrise pursuant to which Sunrise currently provides comprehensive accounting and property management services with respect to 79 of our seniors housing communities. Each management agreement has a term of 30 years from its effective date, the earliest of which began in 2004. See Note 3 Concentration of Credit Risk of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Although we have various rights as owner under the Sunrise management agreements, we rely on Sunrise s personnel, good faith, expertise, historical performance, technical resources and information systems, proprietary information and judgment to manage our seniors housing communities efficiently and effectively. We also rely on Sunrise to set resident fees and otherwise operate those properties in compliance with our management agreements. Because a significant portion of our properties are managed by Sunrise, its inability to efficiently and effectively manage those properties and to provide timely and accurate accounting information with respect thereto could have a Material Adverse Effect on us. In addition, Sunrise s inability or unwillingness to satisfy its obligations under our management agreements, a change in Sunrise s senior management or any adverse developments in Sunrise s business and affairs or financial condition could have a Material Adverse Effect on us. See Risk Factors Risks Arising from Our Business The properties managed by Sunrise account for a significant portion of our revenues and operating income; Adverse developments in Sunrise s business and affairs or financial condition could have a Material Adverse Effect on us included in Item 1A of this Annual Report on Form 10-K.

Competition

We compete for real property investments with healthcare providers, other healthcare REITs, healthcare lenders, real estate partnerships, banks, insurance companies, private equity and other investors. Some of our competitors are significantly larger and have greater financial resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. As a result, our ability to compete successfully for real property investments is impacted by numerous factors, including the availability of 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 Risk Factors 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 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.

Revenues from our properties are dependent on the ability of our operators and managers to compete with other seniors housing and healthcare operators and managers. These operators and managers compete on a local and regional basis for residents and patients at our properties on a number of different levels. Their ability to successfully attract and retain residents and patients depends upon several factors, including the scope and quality of services provided, the ability to attract and retain qualified personnel, the operational reputation of the operator or manager, 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 or manager. Private, federal and state reimbursement programs and the effect of other laws and regulations also may have a significant impact on our operators and managers ability to compete successfully for residents and patients at the properties. See Risk Factors Risks Arising from Our Business Our tenants,

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managers and operators may be adversely affected by increasing healthcare regulation and enforcement and 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, 2009, we had 61 full-time employees, none of whom are subject to a collective bargaining agreement. We consider the relationship with our employees to be good.

Insurance

We maintain and/or require in our existing leases and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our 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. We believe that our tenants, operators and managers are in substantial compliance with the insurance requirements contained in their respective leases and other agreements with us. However, we cannot assure you that Kindred or our other tenants, operators and managers will maintain such insurance, and any failure by them to do so could have a Material Adverse Effect on us.

We maintain casualty insurance for our properties managed by Sunrise, but general and professional liability insurance covering those properties and the related operations is currently maintained by Sunrise in accordance with the standards contained in our management agreements. Pursuant to our management agreements, we may elect, on an annual basis, to opt in or out of the Sunrise insurance program, meaning that we can choose whether we or Sunrise will bear responsibility for maintaining general and professional liability and casualty insurance for our Sunrise-managed properties in accordance with the standards contained in the management agreements. The costs of the insurance program covering our Sunrise-managed properties are facility expenses paid from the revenues of these properties, regardless of who maintains the insurance.

We believe that the amount and scope of insurance coverage provided by our policies and the policies maintained by our tenants, operators and managers 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 cost or that we or our tenants, operators and managers will be able to maintain adequate levels of insurance coverage. In addition, we cannot give any assurances as to the future financial viability of our insurers or that the insurance coverage provided will fully cover all losses on our properties upon the occurrence of a catastrophic event.

Due to historically high frequency and severity of professional liability claims against healthcare providers, the availability of professional liability insurance has been restricted and the premiums for such coverage remain very high. In addition, many healthcare providers are pursuing different organizational and corporate structures coupled with self-insurance programs that provide less insurance coverage. As a result, the tenants, operators and managers of our properties could incur large funded and unfunded professional liability expense, which could have a material adverse effect on their liquidity, financial condition and results of operations, and which, in turn, could affect adversely their ability to make rental payments under, or otherwise comply with the terms of, their leases with us or, with regard to our Sunrise-managed properties, adversely affect our results of operations. We cannot assure you that our tenants, operators and managers will continue to carry the insurance coverage required under the terms of their leases and other agreements with us or that we will continue to require the same levels of insurance under those leases and agreements.

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.

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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

Overview

While the properties within our portfolio are all susceptible to many varying types of regulation, we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. A significant expansion of applicable federal, state or local laws and regulations, proposed healthcare reform, new interpretations of existing laws and regulations or changes in enforcement priorities could have a material adverse effect on certain of our operators liquidity, financial condition and results of operations, which, in turn, could adversely impact their ability to satisfy their contractual obligations, including making rental payments under, or otherwise complying with the terms of, their leases with us. In addition, efforts by third-party payors, such as the federal Medicare program, state Medicaid programs and private insurance carriers, including health maintenance organizations and other health plans, to impose greater discounts and more stringent cost controls upon operators (through changes in reimbursement rates and methodologies, discounted fee structures, the assumption by healthcare providers of all or a portion of the financial risk or otherwise) are expected to intensify and continue. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could also have a material adverse effect on certain of our operators liquidity, financial condition and results of operations, which could affect adversely their ability to satisfy their contractual obligations, including making rental payments under, and otherwise complying with the terms of, their leases with us.

Licensure and Certification

Participation in the Medicare and Medicaid programs generally requires the operators of our skilled nursing facilities to be licensed on an annual or bi-annual basis and certified annually 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 skilled nursing facilities. The failure of an operator to maintain or renew any required license or regulatory approval or to correct serious deficiencies identified in compliance surveys could prevent it from continuing operations at a property. A loss of licensure or certification could also adversely affect a skilled nursing facility operator s ability to receive payments from the Medicare and Medicaid programs, which, in turn, could affect adversely their ability to satisfy their contractual obligations, including making rental payments under, and otherwise complying with the terms of, their leases with us.

Similarly, in order to receive Medicare and Medicaid reimbursement, our hospitals 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 (formerly 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,

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in turn, could adversely affect their ability to satisfy their contractual obligations, including making rental payments under, and otherwise complying with the terms of, their leases with us.

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 governing licensure, provision of services, staffing requirements and other operational matters. These laws vary greatly from one jurisdiction to another. Although recent growth in the U.S. seniors housing industry has attracted the attention of various federal agencies which believe there should be more federal regulation of these properties, thus far, Congress has deferred to state regulation of seniors housing communities. However, as a result of this growth and increased federal scrutiny, some states have revised and strengthened their regulation of seniors housing communities, and more are expected to do the same in the future.

Certificates of Need

Skilled nursing facilities and hospitals are subject to various state CON laws requiring governmental approval prior to the development or expansion of healthcare facilities and services. The approval process in these states generally requires a facility to demonstrate the need for additional or expanded healthcare facilities or services. CONs, where applicable, are sometimes necessary for expansion of existing facilities, construction of new facilities, changes in ownership or control of licensed facilities, addition of beds, investment in major capital equipment, introduction of new services or termination of services previously approved through the CON process. These CON laws and regulations may restrict an operator s ability to expand our properties and grow its business in certain circumstances, which could have an effect on the operator s revenues and, in turn, adversely impact us. In addition, in the event that any operator of our properties fails to make rental payments to us or to comply with applicable healthcare regulations, our ability to evict that operator and substitute another operator for a particular facility may be materially delayed or limited by CON laws, as well as by various state licensing and receivership laws and 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. We may also incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings.

Fraud and Abuse

Various federal and state laws and regulations prohibit a wide variety of fraud and abuse by healthcare providers who participate in, receive payments from or make or receive referrals for work in connection with government-funded healthcare programs, including Medicare and Medicaid. The federal laws include, by way of example, the following:

The anti-kickback statute (Section 1128B(b) of the Social Security Act), which prohibits certain business practices and relationships, including the payment, receipt or solicitation of any remuneration, directly or indirectly, to induce a referral of any patient or service or item covered by a federal health care program, including Medicare or a state health program, such as Medicaid;

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 or Medicaid patients to providers of a broad range of designated healthcare services with which the physicians (or their immediate family members) 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; and

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, monetary penalties, imprisonment, denial of Medicare and Medicaid payments, 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 anti-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 significant growth in the number of investigations and enforcement actions over the past several years. Private enforcement of healthcare fraud has also 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 suits, may be filed by almost anyone, including present and former patients or nurses and other employees. HIPAA also created a series of new healthcare crimes.

As federal and state budget pressures continue, administrative agencies may continue to escalate their 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 anti-fraud and abuse laws and regulations by an operator of our properties could have a material adverse effect on the operator s liquidity, financial condition or results of operations, which could adversely their ability to satisfy their contractual obligations, including making rental payments under, and otherwise complying with the terms of, their leases with us.

Healthcare Legislation

There are currently pending various comprehensive reform initiatives that could transform the healthcare system in the United States. The U.S. House of Representatives and the U.S. Senate have each passed differing reform bills that address a number of issues, including healthcare cost-saving measures. Many of the proposals could or would affect both public and private healthcare programs and could adversely affect Medicare payments to skilled nursing facilities and long-term acute care hospitals, which, in turn, could have a Material Adverse Effect on us. Future healthcare reform or legislation or changes in the administration or implementation of governmental and non-governmental healthcare reimbursement programs also could have a material adverse effect on our operators liquidity, financial condition or results of operations, which could adversely affect their ability to satisfy their obligations to us and which, in turn, could have a Material Adverse Effect on us.

The President s Budget, released on February 2, 2010, assumed that health care reform legislation pending before Congress would be passed and, therefore, did not directly propose certain adjustments to Medicaid, Medicare and Medicare Advantage Plans, which may or may not affect the operating income of the operators of our healthcare properties. The impact of these adjustments or lack thereof, if any, has not been determined.

Healthcare is one of the largest industries in the United States and continues to attract a great deal of legislative interest and public attention. We cannot assure you 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 their ability to satisfy their obligations to us and which, in turn, could have a Material Adverse Effect on us.

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Medicare Reimbursement; Long-Term Acute Care Hospitals

The Balanced Budget Act of 1997 (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 that date. Under LTAC PPS, which classifies patients into distinct diagnostic groups based on clinical characteristics and expected resource needs, 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 LTAC PPS payment rates are established by regulators and published annually for the long-term acute care hospital rate year, which historically has been July 1 through June 30. However, starting with the 2010 rate year, which commenced October 1, 2009, annual rate updates now coincide with annual updates to the LTC-DRG classification system, which correspond to the federal fiscal year (October 1 through September 30).

The Medicare, Medicaid, and SCHIP Extension Act of 2007 (Pub. L. No. 110-173) (the Medicare Extension Act) significantly expanded medical necessity reviews by the Centers for Medicare & Medicaid Services (CMS) by requiring long-term acute care hospitals to institute a patient review process to better assess patients upon admission and on a continuing basis for appropriateness of care. In addition, the Medicare Extension Act, among other things, provided the following long-term acute care hospital payment policy changes:

- It prevented CMS from applying the 25-percent rule, which limits payments from referring co-located hospitals, to freestanding and grandfathered long-term acute care hospitals for three years;

- It modified the application of the 25-percent rule to certain urban and rural long-term acute care hospitals-within-hospitals and satellite facilities for three years;

- It prevented CMS from applying the very short stay outlier policy for three years; and

- It prevented CMS from making any one-time adjustments to correct estimates used in implementing LTAC PPS for three years.

Lastly, the Medicare Extension Act introduced a moratorium on new long-term acute care hospitals and beds for three years.

On May 22, 2008, CMS published a final rule addressing two LTAC PPS payment policies mandated by the Medicare Extension Act. The rule delayed the extension of the 25-percent rule to freestanding and grandfathered long-term acute care hospitals and increased the patient percentage thresholds for certain urban and rural long-term acute care hospitals-within-hospitals and satellite facilities for three years. The rule also set forth policies on implementing the moratorium on new long-term acute care hospitals and beds imposed by the Medicare Extension Act.

On August 27, 2009, CMS published its final rule updating LTAC PPS for the 2010 fiscal year (October 1, 2009 through September 30, 2010), including setting the LTAC PPS standard federal payment rate. CMS estimated that net payments to long-term acute care hospitals under the final rule would increase by approximately 3.3% in fiscal year 2010, reflecting, in part, both a 2% increase in the federal payment rate for fiscal year 2010 as compared to fiscal year 2009 and a nearly 20% decrease in the outlier fixed-loss amount for fiscal year 2010 as compared to fiscal year 2009.

In the August 27, 2009 final rule, CMS also updated the inpatient prospective payment system (IPPS) for short-term and long-term acute care hospitals for the 2010 federal fiscal year (October 1, 2009 through September 30, 2010) and finalized policies to implement changes required by Section 124 of the Medicare Improvements for Patients & Providers Act of 2008 (Pub. L. No. 110-275). The final rule continues reforms intended to improve the accuracy of Medicare payments for inpatient acute care through the severity-adjusted

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diagnosis-related group (MS-LTC-DRG) classification system for long-term acute care hospitals. CMS projects that aggregate annual spending will not change as a result of the reforms. However, CMS expects that payments would increase for hospitals serving more severely ill patients and decrease for hospitals serving patients who are less severely ill.

We regularly assess the financial implications of CMS s rules on the operators of our long-term acute care hospitals, but we cannot assure you that the current rules or future updates to LTAC PPS, LTC-DRGs or Medicare reimbursement for long-term acute care hospitals will not materially adversely affect our operators, which, in turn, could have a Material Adverse Effect on us. See Risk Factors 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.

Medicare Reimbursement; Skilled Nursing Facilities

The BBA also mandated the creation of a prospective payment system for skilled nursing facilities (SNF PPS) offering Part A covered services. Under 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. SNF PPS payments are made on a per diem basis for each resident and are generally intended 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.

In response to widespread healthcare industry concern about the reductions in payments under the BBA, the federal government enacted the Balanced Budget Refinement Act of 1999 (BBRA). The BBRA increased the per diem reimbursement rates for certain high acuity patients by 20% from April 1, 2000 until case mix refinements were implemented by CMS, as explained below. The BBRA also imposed a two-year moratorium on the annual cap mandated by the BBA on physical, occupational and speech therapy services provided to a patient by outpatient rehabilitation therapy providers, including Part B covered therapy services in nursing facilities. Relief from the BBA therapy caps was subsequently extended multiple times by Congress, but these extensions expired on December 31, 2009 and have not yet been renewed by Congress. Therefore, effective January 1, 2010, Medicare coverage of therapy services at nursing facilities paid for under Medicare part B are capped at $1,860 per beneficiary per year for occupational therapy services and $1,860 per beneficiary for speech-language pathology and physical therapy services combined.

Pursuant to its final rule updating SNF PPS for the 2006 federal fiscal year, CMS 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.

Under its final rule updating LTC-DRGs for the 2007 federal fiscal year, CMS reduced reimbursement of uncollectible Medicare coinsurance amounts for all beneficiaries (other than beneficiaries of both Medicare and Medicaid) from 100% to 70% for skilled nursing facility cost reporting periods beginning on or after October 1, 2005. CMS estimated that this change in treatment of bad debt would 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 included 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.

On July 31, 2009, CMS issued its final rule updating SNF PPS for the 2010 fiscal year (October 1, 2009 through September 30, 2010). Under the final rule, the update to the SNF PPS standard federal payment rate for skilled nursing facilities includes a 2.2% increase in the market basket index for the 2010 fiscal year. The final rule also provides a recalibration in the case-mix indexes for the resource utilization groups (RUGs) used to determine the daily payment for beneficiaries in skilled nursing facilities that is expected to reduce payments to

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skilled nursing facilities by 3.3% in fiscal year 2010. CMS estimates that net payments to skilled nursing facilities as a result of the market basket increase and the recalibration in the case-mix indexes for RUGS under the final rule would decrease by approximately $360 million, or 1.1%, in fiscal year 2010.

The July 31, 2009 final rule includes other changes that may additionally affect net payments to skilled nursing facilities, including, by way of example, implementation of the RUG-IV classification model for fiscal year 2011 and possible new requirements for the quarterly reporting of nursing home staffing data.

We regularly assess the financial implications of CMS s rules on the operators of our skilled nursing facilities, but we cannot assure you that the current rules or future updates to SNF PPS, 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 Risk Factors 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.

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 skilled nursing facilities. Although the federal government and the states share responsibility for financing Medicaid, states have a wide range of discretion, within certain federal guidelines, to determine eligibility and reimbursement methodology. In addition, federal legislation limits an operator s ability to withdraw from the Medicaid program by restricting the eviction or transfer of Medicaid residents. As state budget pressures continue to escalate as result of the financial crisis, a significant number of states have announced actual or potential budget shortfalls. As a result of these shortfalls, states are reducing Medicaid expenditures by implementing freezes or cuts in Medicaid rates paid to providers, including hospitals and skilled nursing facilities, or by restricting eligibility and benefits.

In the Deficit Reduction Act of 2005 (Pub. L. No. 109 171), Congress made changes to the Medicaid program that were estimated to result in $10 billion in savings to the federal government over the five years following enactment of the legislation, 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 CMS s final rule updating SNF PPS for the 2006 federal fiscal year were also anticipated to reduce Medicaid payments to skilled nursing facility operators. In addition, as part of the Tax Relief and Health Care Act of 2006 (Pub. L. No. 109-432), 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 was anticipated that this reduction should have a negligible effect, impacting only those states with taxes in excess of 5.5%. The ceiling is scheduled to revert back to 6% on October 1, 2011. We have not ascertained the impact of this reduction on our skilled nursing facility operators.

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) (the Recovery Act). The Recovery Act appropriates additional funds for health care improvement, expansion, and research. The Recovery Act, for example, temporarily increases federal payments to state Medicaid programs by $86.6 billion by, among other things, increasing the federal share of Medicaid payments to the states by 6.2% across the board, with additional funds available depending on a State s rate. The Recovery Act requires states to promptly pay nursing facilities under their Medicaid program, and precludes states, as a condition of receiving the additional funding, from heightening their Medicaid eligibility requirements and a temporary increase in federal monies. The increase in payments to States has not yet been extended and the effect of this cannot be ascertained at this time. The President s 2011 budget submitted to Congress on February 1, 2010 proposes to temporarily extend the Medicaid federal assistance payments for six months, through June 30, 2011.

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As state reimbursement methodologies continue to evolve, at this time we expect significant Medicaid rate freezes or cuts or other program changes to be adopted by many states. In addition, the U.S. government may revoke, reduce or stop approving provider taxes that have the effect of increasing Medicaid payments to the states. We cannot predict the impact of such actions on our operators and we cannot assure you that payments under Medicaid are currently, or will be in the future, sufficient to fully reimburse our operators for the cost of providing skilled nursing services. 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.

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 or manage our properties, we may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any property from which there is or has been a release or threatened release of a regulated material 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, property or natural resources. See Risk Factors 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 Risk Factors Risks Arising from Our Business We depend on Kindred and Brookdale Senior Living for a significant portion of our revenues and operating income; Any inability or unwillingness by Kindred or Brookdale Senior Living or to satisfy its obligations under its agreements with us could have a Material Adverse Effect on us included in Item 1A of this Annual Report on Form 10-K.

We have also generally agreed to indemnify certain of our operators 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 before the lease commencement date for the applicable leased property. We have agreed to indemnify Sunrise against any environmental claims (including penalties and clean-up costs) resulting from any conditions on our properties managed by Sunrise, unless Sunrise caused or contributed to those conditions.

We did not make any material capital expenditures in connection with environmental, health, and safety laws, ordinances and regulations in 2009 and do not expect that we will have to make any such material capital expenditures during 2010.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes certain U.S. federal income tax considerations that you may consider relevant as a holder of our common stock. It is not tax advice. The discussion does not address all aspects of taxation that may be relevant to particular stockholders in light of their personal investment or tax circumstances, nor does it apply to certain types of stockholders that are subject to special treatment under the federal income tax laws, such as insurance companies, tax-exempt organizations (except to the extent discussed below under Treatment of Tax-Exempt Stockholders), financial institutions, pass-through entities (or investors in such entities) or broker-dealers, and non-U.S. persons and foreign corporations (except to the extent discussed below under Special Tax Considerations for Non-U.S. Stockholders).

The statements in this section are based on the Internal Revenue Code of 1986, as amended (the Code), U.S. Treasury Regulations and administrative and judicial interpretations thereof. The laws governing the federal income tax treatment of REITs and their stockholders are highly technical and complex, and this summary is qualified in its entirety by the authorities listed above, as in effect on the date hereof. We cannot assure you that new laws, interpretations of law or court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

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) certain 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, or 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. Effective January 1, 2009, our Kindred assets were no longer subject to Built-in Gains Tax. The 21 Brookdale assets we acquired in connection with our Provident acquisition will remain subject to Built-in Gains Tax until November 2014.

In addition, if we fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below) and nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on the gross income attributable to the greater of the amount by which we failed the applicable test (or, for our 2001 through 2004 taxable years, a 90% test in lieu of the 95% test), multiplied by a

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fraction intended to reflect our profitability. If we violate one or more of the REIT asset tests (as discussed below) under certain circumstances, but the violation is 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. If we fail to satisfy one or more requirements for REIT qualification, other than the 75% gross income test, the 95% gross income test or the assets tests, 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 certain transactions with a taxable REIT subsidiary that are not conducted on an arm s-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 qualify as a REIT, we must 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 twelve 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 such 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 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

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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 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 not qualify as a REIT for such year. Loss of our REIT status 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 25% of the value of our assets can be represented by securities of taxable REIT subsidiaries (the 25% TRS test).

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 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 is 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 fail to meet any of the REIT asset tests for a particular quarter, but we do 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 is 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

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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, the 5% asset test and the 25% TRS test. If we fail to satisfy any of these tests and the relief provisions, we would lose our REIT status, which would have a Material Adverse Effect on us.

Foreclosure Property

The foreclosure property rules permit us (by our election) to foreclose or repossess properties without being disqualified as a REIT 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, in certain circumstances, be extended for an additional three years. Foreclosure property treatment for qualified healthcare property is available for an initial period of two years and may, in certain circumstances, be extended for an additional four 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 excess payments that we receive or on excess 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) they are (A) declared in October, November or December, (B) payable to stockholders of record on a specified date in any one of these months and (C) actually paid during January of such following year or (ii)(A) they are declared before we timely file our tax return for such year, (B) paid on or before the first regular dividend payment after such declaration, and (C) 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

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each calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such 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 through the year ended December 31, 2009. Although we intend to continue meeting the annual distribution requirements to qualify as a REIT for federal income tax purposes for the year ending December 31, 2010 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 are not able to meet the annual distribution requirement, we would fail to qualify as a REIT. Moreover, if we distribute 100% of our REIT taxable income by taking advantage of the throwback rule described in clause (ii)(C) of the second sentence of the preceding paragraph, satisfying the REIT distribution requirement and generally avoiding corporate level tax, we may incur a 4% nondeductible excise tax.

In Revenue Procedure 2010-12, the IRS stated that it would treat stock dividends as distributions for purposes of satisfying the REIT distribution requirements for calendar years 2008 through 2012, provided that stockholders can elect to receive the distribution in either cash or stock, subject to certain limitations. Any stock so distributed would be taxable to the recipient. We may choose to declare stock dividends in accordance with Revenue Procedure 2010-12 or otherwise. Also, we have net operating loss carryforwards that we can use to reduce our annual distribution requirements. See Note 11 Income Taxes of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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 is due to reasonable cause and not willful neglect and if we were to pay a penalty of $50,000 for each such failure. However, 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 (for all open tax years beginning with the year our REIT election is revoked or terminated) 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) an individual who is a citizen or resident of the United States; (ii) a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (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 U.S. Treasury Regulations to

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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. This section assumes the U.S. Stockholder holds our common stock as a capital asset.

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 qualified dividends rate generally available to non-corporate holders 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 (determined on a share-by-share basis), 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 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 that is taxable at a maximum rate 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%.

Taxation of U.S. Stockholders on the Disposition of Shares of Common Stock

In general, a U.S. Stockholder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of our common stock as long-term capital gain or loss if the U.S. Stockholder has held the shares for more than one year, and otherwise as short-term capital gain or loss. However, a U.S. Stockholder

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must treat any loss upon a sale or exchange of shares of our common stock held for six months or less as a long-term capital loss to the extent of capital gain dividends and any other actual or deemed distributions from us which the U.S. Stockholder treats as long-term capital gain. All or a portion of any loss that a U.S. Stockholder realizes upon a taxable disposition of our common stock may be disallowed if the U.S. Stockholder purchases other shares of our common stock within 30 days before or after the disposition.

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 estates and foreign trusts (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, local and non-U.S. 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 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 (determined on a share-by-share basis), 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.

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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 common shares at any time during the one-year period ending on the date of distribution 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 attributable to U.S. real property interests. Moreover, if we designate previously made distributions as capital gain dividends attributable to U.S. real property interests, subsequent distributions (up to the amount of such prior distributions) will be treated as capital gain dividends subject to 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 non-corporate persons. 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 at any time during the one-year period ending on the date of the distribution, 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 (and subject to possible withholding), 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 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).

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 disposition in question, less than 50% in value of its shares is held directly or indirectly by Non-U.S. Stockholders. 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 currently qualify or will qualify as a domestically controlled REIT at any

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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

Information reporting to our stockholders and to the IRS will apply to 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, and to the proceeds of a sale or other disposition of our common stock. Under the backup withholding rules, a stockholder may be subject to backup withholding at the applicable rate (currently 28%) with respect to distributions paid and proceeds from a disposition of our common stock unless such holder (i) is a corporation, non-U.S. person 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.

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.

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 broker that (i) is a U.S. person, (ii) is a foreign partnership that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or more than 50% of whose capital or profit interests are owned during certain periods by U.S. persons, 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 stockholder may obtain a refund of any amounts withheld under the backup withholding rules in excess of its U.S. federal income tax liability by timely filing the appropriate claim for a refund with the IRS.

Other Tax Consequences

State and Local Taxes

We and/or our stockholders may be subject to taxation by various states and localities, including those in which we or a stockholder transact business, own property or reside. The state and local tax treatment may differ from the federal income tax treatment described above. Consequently, stockholders should consult their own tax advisers regarding the effect of state and local tax laws, in addition to the federal, foreign and other tax laws, in connection with an investment in our common stock.

Possible Legislative or Other Actions Affecting Tax Consequences

You should recognize that our present federal income tax treatment may be modified by future legislative, judicial and administrative actions or decisions at any time, which may be retroactive in effect, and which could

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adversely affect the tax consequences of an investment in shares of our common stock. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, resulting in statutory changes as well as promulgation of new, or revisions to existing, regulations and revised interpretations of established concepts.

On July 30, 2008, the Housing and Economic Recovery Tax Act of 2008 (the 2008 Act) was enacted into law. The 2008 Act s sections that affect the REIT provisions of the Code are generally effective for taxable years beginning after its date of enactment, which means that the new provisions apply to us from and after January 1, 2009, except as otherwise indicated below.

The 2008 Act made the following changes to, or clarifications of, the REIT provisions of the Code that could be relevant for us:

Taxable REIT Subsidiaries. The limit on the value of taxable REIT subsidiaries securities held by a REIT was increased from 20% to 25% of the total value of such REIT s assets. See Requirements for Qualification as a REIT Taxable REIT Subsidiaries.

Rental Income from a TRS. A REIT is generally limited in its ability to earn qualifying rental income from a TRS. The 2008 Act permits a REIT to earn qualifying rental income from the lease of a qualified healthcare property to a TRS if an eligible independent contractor operates the property. In certain future circumstances, we may find it advantageous to lease properties to one or more TRSs in this manner.

Foreign Currency as Cash. Foreign currency that is the functional currency of a REIT or a qualified business unit of a REIT and is held for use in the normal course of business of such REIT or qualified business unit will be treated as cash for purposes of the 75% asset test. The foreign currency must not be derived from dealing, or engaging in substantial and regular trading in securities. See Requirements for Qualification as a REIT Asset Tests.

Foreign Currency Gain. Under the 2008 Act, foreign currency gain earned after July 30, 2008 that qualifies as real estate foreign exchange gain is excluded from both the 75% and 95% gross income tests, while income from foreign currency gains that qualifies as passive foreign exchange gain is excluded from the 95% gross income test, but is treated as non-qualifying income for the 75% gross income test. Real estate foreign exchange gain is foreign currency gain attributable to (i) any item of income or gain which qualifies for purposes of the 75% gross income test, (ii) the acquisition or ownership of obligations secured by mortgages on real property or interests in real property, or (iii) becoming or being an obligor under debt obligations secured by mortgages on real property or on interests in real property. Real estate foreign exchange gain also includes foreign currency gain attributable to a qualified business unit (QBU) of the REIT if the QBU meets the 75% gross income test for the taxable year and the 75% asset test at the close of each quarter of the taxable year that the REIT directly or indirectly owned an interest in the QBU. Passive foreign exchange gain includes all real estate foreign exchange gain plus foreign currency gain attributable to (i) any item of income or gain which qualifies for purposes of the 95% gross income test, (ii) the acquisition or ownership of debt obligations, or (iii) becoming or being the obligor under debt obligations. The Treasury Department has the authority to expand the definitions of real estate foreign exchange and passive foreign exchange gain to include other items of foreign currency gain.

Expanded Prohibited Transactions Safe Harbor. The safe harbor from the prohibited transactions tax for certain sales of real estate assets is expanded by reducing the required minimum holding period from four years to two years, among other changes.

Hedging Income. Income from a hedging transaction entered into after July 30, 2008 that complies with identification procedures set out in U.S. Treasury Regulations and hedges indebtedness incurred or to be incurred by us to acquire or carry real estate assets will not constitute gross income for purposes of both the 75% and 95% gross income tests.

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Reclassification Authority. The Secretary of the Treasury is given broad authority to determine whether particular items of gain or income recognized after July 30, 2008 qualify or not under the 75% and 95% gross income tests, or are to be excluded from the measure of gross income for such purposes.

We cannot predict the likelihood of passage of any new tax legislation or other provisions either directly or indirectly affecting us or our stockholders or the value of an investment in our common stock.

ITEM 1A. ***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 depend on Kindred and Brookdale Senior Living for a significant portion of our revenues and operating income; Any inability or unwillingness by Kindred or Brookdale Senior Living to satisfy its obligations under its agreements with us could have a Material Adverse Effect on us.

We lease a substantial portion of our properties to Kindred and Brookdale Senior Living, and they are each a significant source of our total revenues and operating income. Since the Kindred Master Leases and our leases with Brookdale Senior Living are triple-net leases, we depend on Kindred and Brookdale Senior Living not only for rental income, but also to pay insurance, taxes, utilities and maintenance and repair expenses in connection with the leased properties. Any inability or unwillingness by Kindred or Brookdale Senior Living to make rental payments to us or to otherwise satisfy its obligations under its agreements with us could have a Material Adverse Effect on us. Any failure by Kindred or Brookdale Senior Living to effectively conduct its operations could adversely affect its business reputation and ability to attract and retain patients and residents in its properties and also could have a Material Adverse Effect on us. Moreover, Kindred and certain subsidiaries of Brookdale Senior Living, namely Brookdale and Alterra, have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. We cannot assure you that Kindred or such subsidiaries of Brookdale Senior Living will have sufficient assets, income, access to financing and insurance coverage to enable it to satisfy these indemnification obligations.

The properties managed by Sunrise account for a significant portion of our revenues and operating income; Adverse developments in Sunrise s business and affairs or financial condition could have a Material Adverse Effect on us.

Sunrise currently manages 79 of our seniors housing communities pursuant to long-term management agreements. These properties represent a substantial portion of our portfolio, based on their gross book value, and account for a significant portion of our revenues and operating income. Although we have various rights as owner under the Sunrise management agreements, we rely on Sunrise s personnel, good faith, expertise, historical performance, technical resources and information systems, proprietary information and judgment to manage our properties efficiently and effectively. We also rely on Sunrise to set resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate those properties in

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accordance with the terms of our management agreements and in compliance with all applicable laws and regulations. For example, we depend on Sunrise s ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our seniors housing communities. A shortage of nurses or other trained personnel or general inflationary pressures may force Sunrise to enhance its pay and benefits package to compete effectively for such personnel, and Sunrise may not be able to offset such added costs by increasing the rates charged to residents. Any increase in these costs, which are included in the operating budget for each property, any failure by Sunrise to attract and retain qualified personnel, or any change in Sunrise s senior management could adversely affect the income we receive from these properties and have a Material Adverse Effect on us.

In addition, any adverse developments in Sunrise s business and affairs, financial strength or ability to operate our properties efficiently and effectively could have a Material Adverse Effect on us. As a result of the current economic and credit crisis and Sunrise s weakened financial condition, as disclosed in Sunrise s filings with the Commission and other public announcements, Sunrise may experience significant financial, legal, accounting or regulatory difficulties, which could result in, among other adverse events, acceleration of its indebtedness, the inability to renew or extend its revolving credit facility, the enforcement of default remedies by its counterparties or the commencement of insolvency proceedings under the U.S. Bankruptcy Code by or against Sunrise. Any one or a combination of these events could have a Material Adverse Effect on us.

The severely weakened economy could adversely impact our operating income and earnings, as well as the results of operations of our tenants and operators, which could impair their ability to meet their obligations to us.

Continued concerns about the uncertainty over whether our economy will be adversely affected by inflation, deflation or stagflation, and the systemic impact of increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a severely distressed real estate market have contributed to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect our ability to generate revenues and/or increase our costs at our Sunrise-managed properties, thereby reducing our operating income and earnings. It could also have an adverse impact on the ability of our tenants and operators to maintain occupancy and rates in our properties, which could harm their financial condition. These economic conditions could cause us to experience operating deficiencies at our Sunrise-managed properties and/or cause our tenants and operators to be unable to meet their rental payments and other obligations due to us, which could have a Material Adverse Effect on us.

We face potential adverse consequences of bankruptcy or insolvency by our tenants, operators, borrowers, managers and other obligors.

We are exposed to the risk that our tenants, operators, borrowers, managers or other obligors could become bankrupt or insolvent. Although our lease, loan and management agreements provide us with the right to exercise certain remedies in the event of default on the obligations owing to us or upon the occurrence of certain insolvency events, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization. For example, a debtor-lessee may reject its lease with us in a bankruptcy proceeding. In such a case, our claim against the debtor-lessee for unpaid and future rents would be limited by the statutory cap of the U.S. Bankruptcy Code. This statutory cap might be substantially less than the remaining rent actually owed under the lease, and it is quite likely that any claim we might have for unpaid rent would not be paid in full. In addition, a debtor-lessee may assert in a bankruptcy proceeding that its lease should be re-characterized as a financing agreement. If such a claim is successful, our rights and remedies as a lender, compared to a landlord, would generally be more limited. Similarly, if a debtor-manager seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies against the manager unless relief is first obtained from the court having jurisdiction over the bankruptcy case. In the event of an obligor bankruptcy, we may also be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of our properties, avoid the imposition of liens on a property and/or transition a property to a new tenant, operator or manager.

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We may be unable to reposition our properties on as favorable terms, or at all, if we have to replace any of our tenants or operators, and we may be subject to delays, limitations and expenses in repositioning our assets.

We cannot predict whether our tenants will renew existing leases upon the expiration of the terms thereof. If the Kindred Master Leases, our leases with Brookdale Senior Living or any of our other leases are not renewed, we would be required to reposition those properties with another tenant or operator. In certain circumstances, we could also exercise our right to replace any tenant or operator upon a default under the terms of the applicable lease. In case of non-renewal, our tenants are required to continue to perform all obligations (including the payment of all rental amounts) for any assets that are not renewed until expiration of the then current lease term. We generally have one year to arrange for the repositioning of non-renewed assets prior to the expiration of the lease term. If we exercise our right to replace a tenant upon a default under a lease, during any period that we are attempting to locate a suitable replacement tenant or operator, there could be a decrease or cessation of rental payments on those properties. We cannot assure you that we would be successful in identifying suitable replacements or entering into leases with new tenants or operators on terms as favorable to us as our current leases, if at all. In this event, we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value and avoid the imposition of liens on properties while they are being repositioned.

Our ability to reposition our properties with another suitable tenant or operator could be significantly delayed or limited by various state licensing receivership, CON or other laws, as well as by the Medicare and Medicaid change-of-ownership rules. We could also incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. These delays, limitations and expenses could materially delay or impact our ability to reposition our properties, collect rent, obtain possession of leased properties or otherwise to exercise remedies for tenant default and could have a Material Adverse Effect on us.

Our counterparties may not be able to satisfy their obligations to us due to the continued turmoil and uncertainty in the capital markets.

Continued turmoil and uncertainty in the capital markets and the tightening of the credit markets have made obtaining new capital more challenging and more expensive. Interest rate fluctuations, financial market volatility or credit market disruptions could limit the ability of our tenants, operators and managers to obtain credit to finance their businesses on acceptable terms, which could adversely affect their ability to satisfy their obligations to us. Similarly, if any of our other counterparties, such as letter of credit issuers, insurance carriers, banking institutions, title companies and escrow agents, experiences difficulty in accessing capital or other sources of funds or fails to remain a viable entity, it could have a Material Adverse Effect on us.

We may be unable to successfully foreclose on the collateral securing our real estate loan investments, and even if we are successful in our foreclosure efforts, we may be unable to successfully reposition the properties, which may adversely affect our ability to recover our investments.

If a borrower defaults under any of our mortgage loans, we may have to foreclose on the loan or protect our interest by acquiring title to the property and thereafter making substantial improvements or repairs in order to maximize the property s investment potential. The borrower may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If the borrower seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing foreclosure or other remedies against the borrower unless relief is first obtained from the court having jurisdiction over the bankruptcy case. Foreclosure-related costs, high loan-to-value ratios or declines in the value of the property may prevent us from realizing an amount equal to our mortgage loans upon foreclosure, and we may be required to record valuation allowance for such losses. Even if we are able to successfully foreclose on the collateral securing our real estate loan investments, we may inherit properties that we are unable to expeditiously reposition with new tenants or operators, if at all, which would adversely affect our ability to recover our investment.

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We are exposed to various operational risks, liabilities and claims with respect to our operating assets that may adversely affect our ability to generate revenues and/or increase our costs and could have a Material Adverse Effect on us.

We are exposed to various operational risks, liabilities and claims with respect to our operating assets, including our Sunrise-managed properties and our MOBs, that may adversely affect our ability to generate revenues and/or increase our costs, thereby reducing our profitability. These risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), rent control regulations, increases in costs of materials, energy, labor (as a result of unionization or otherwise) and services, national and regional economic conditions, the imposition of new or increased taxes, capital expenditure requirements, professional and general liability claims and the availability and costs of professional and general liability insurance. Any one or a combination of these factors could result in operating deficiencies at our operating assets which 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 assets.

We intend to continue to pursue investments in, and/or acquisitions or development of, additional seniors housing and/or healthcare assets domestically and internationally, subject to the contractual restrictions contained in our unsecured revolving credit facilities 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 or manager will fail to meet performance expectations. In addition, any new development projects that we pursue would be subject to 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. Investments in and acquisitions of properties outside the United States would also expose us to legal, economic and market risks associated with operating in foreign countries, such as currency and tax risks. If we incur additional debt or issue equity securities, or both, to finance future investments, acquisitions or development activity, our leverage could increase or our per share financial results may be reduced.

When we attempt to finance, acquire or develop properties, we compete with healthcare providers, other healthcare REITs, healthcare lenders, real estate partnerships, banks, insurance companies, private equity and other investors, some of whom are significantly larger and have substantially greater financial resources than we do. Our ability to compete successfully for investment and acquisition opportunities is affected by many factors, including our cost of obtaining debt and equity capital at rates comparable to or better than our competitors. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business objectives and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and 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 such opportunities, we could encounter unanticipated difficulties and expenditures relating to the properties or businesses we invest in or acquire, the investment or acquisition could divert management s attention from our existing business, or the value of such investment or acquisition could decrease substantially, some or all of which could have a Material Adverse Effect on us.

As we invest in, and/or acquire or develop, additional seniors housing and/or healthcare assets or businesses, we expect that the number of operators of our properties and, potentially, our business segments will increase. 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. Moreover, in some cases, acquisitions require the integration of companies that have previously operated independently. Successful integration of the operations of those companies will depend primarily on our ability to consolidate operations, systems, procedures and personnel to eliminate redundancies and costs. Potential difficulties we could encounter during integration include the loss of key employees, disruption of our business, possible inconsistencies in standards, controls, procedures and policies, and the assumption of unexpected liabilities. In addition, projections of estimated future revenues, costs savings or operating metrics that we develop during the due diligence and integration planning process could prove to be inaccurate. If we experience any of these difficulties, or if we later discover additional liabilities or experience unforeseen costs relating to acquired companies, we might not achieve the economic benefit we expect from acquisitions, which could have a Material Adverse Effect on us.

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

We invest primarily in real estate in particular, seniors housing and healthcare properties. This concentration exposes us to all of the risks inherent in investments in real estate to a greater degree than if our portfolio was diversified, and these risks are magnified by the fact that our real estate investments are limited to properties used in the seniors housing or healthcare industries. If the current downturn in the real estate industry continues or intensifies, it could adversely affect the value of our properties and our ability to sell properties for a price or on terms acceptable to us. A downturn in the seniors housing or healthcare industries could negatively impact our operating income and earnings, as well as our operators ability to make rental payments to us, which, in turn, could have a Material Adverse Effect on us.

Because real estate investments are relatively illiquid, our ability to quickly sell or exchange any of our properties in response to changes in economic or other conditions will be limited. We cannot give any assurances that we will recognize full value for any property that we are required to sell for liquidity reasons. This inability to respond quickly to changes in the performance of our investments could adversely affect our business, results of operations and financial condition.

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 consequences may not 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 seniors housing and healthcare operations, tenants and operators. Our ability to invest in non-seniors housing or non-healthcare properties is restricted by the terms of our unsecured revolving credit facilities, 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.

Our tenants, operators and managers may be adversely affected by increasing healthcare regulation and enforcement.

Over the last several years, 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, Brookdale Senior Living and Sunrise. The extensive federal, state and local laws and regulations affecting the healthcare industry include those relating to, among other things, licensure, conduct of operations, ownership of facilities, addition of facilities and equipment, allowable costs, services, prices for services, qualified beneficiaries, quality of care, patient rights, fraudulent or abusive behavior, and financial and other arrangements which may be entered into by healthcare providers. Changes in enforcement policies by federal and state governments have resulted 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.

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If our tenants, operators and managers fail to comply with the extensive laws, regulations and other requirements applicable to their businesses and the operation of our properties, they could become ineligible to receive reimbursement from governmental and private third-party payor programs, face bans on admissions of new patients or residents, suffer civil and/or criminal penalties and/or be required to make significant changes to their operations. Our tenants, operators and managers also could be forced to expend considerable resources responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants, operators and managers and the results of operations of our properties operated or managed by those entities could be adversely affected, 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, and any changes in the regulatory framework could likewise have a material adverse effect on our tenants, operators and managers, 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. 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 our 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 certain of our tenants and operators, which could affect adversely their ability to make rental payments under, and otherwise comply with the terms of, their leases with us.

We have only limited rights to terminate our management agreements with Sunrise, and we may be unable to replace Sunrise if our management agreements are terminated or not renewed.

We and Sunrise are parties to long-term management agreements pursuant to which Sunrise currently provides comprehensive property management services with respect to 79 of our seniors housing communities. Each management agreement has a term of 30 years, but may be terminated by us upon the occurrence of an event of default by Sunrise in the performance of a material covenant or term thereof (including, in certain circumstances, the revocation of any licenses or certificates necessary for operation), subject in each case to Sunrise s rights to cure deficiencies. Each management agreement may also be terminated upon the occurrence of certain insolvency events relating to Sunrise. In addition, if a minimum number of properties fail to achieve a targeted NOI level for a given period, then we may terminate the management agreement on each property in such pool. This targeted NOI level for each property is based upon an expected operating income projection set at the commencement of the management agreement for the applicable property, with such projection escalating annually. However, various legal and contractual considerations may limit or delay our exercise of any or all of these termination rights.

In the event that our management agreements with Sunrise are terminated for any reason or are not renewed upon expiration of their terms, we will have to find another manager for the properties covered by those agreements. We believe there are a number of qualified national and regional seniors care providers that would be interested in managing our Sunrise-managed properties. However, we cannot assure you that we will be able to locate another suitable manager or, if we are successful in locating such a manager, that such manager will manage the properties effectively. Any such inability or lengthy delay in replacing Sunrise as manager following termination or non-renewal of our management agreements could have a Material Adverse Effect on us.

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Our investments in joint ventures could be adversely affected by our lack of sole decision-making authority regarding major decisions, our reliance on our joint venture partners financial condition, any disputes that may arise between us and our joint venture partners and our exposure to potential losses from the actions of our joint venture partners.

As of December 31, 2009, we had 75% to 85% interests in 60 seniors housing communities owned in joint ventures with Sunrise, and we had controlling interests in six MOBs owned through joint ventures with partners who provide management and leasing services for the properties. These joint ventures involve risks not present with respect to our wholly owned properties, including the following:

- We may be prevented from taking actions that are opposed by our joint venture partners. As the managing member or general partner, we have authority to make all decisions for our Sunrise joint ventures except for a limited set of major decisions, which generally include: (a) the merger or disposition of substantially all the assets of the joint venture; (b) the sale of additional interests in the joint venture; (c) the dissolution of the joint venture; (d) the disposition of a property owned by the joint venture; and (e) the acquisition of any real property by the joint venture. Under our MOB joint venture arrangements, we may share decision-making authority with our joint venture partners regarding major decisions affecting the ownership or operation of the joint venture and any property owned by the joint venture, such as the sale or financing of the property or the making of additional capital contributions for the benefit of the property;

- Our ability to transfer our interest in a joint venture to a third party may be restricted. We can generally transfer our interest in the Sunrise joint ventures, without consent, to anyone other than large seniors housing operators or their majority investors. Prior consent of our MOB joint venture partners may be required for a sale or transfer to a third party of our interests in such joint ventures;

- Our joint venture partners might become bankrupt or fail to fund their share of required capital contributions, which may delay construction or development of a property or increase our financial commitment to the joint venture. Generally, in our Sunrise joint ventures, if either member fails to make a required capital contribution to a joint venture after notice and a cure period, the non-defaulting member may (i) revoke the capital contribution funding notice, (ii) advance to the joint venture the amount of the required capital contribution on behalf of the defaulting member in the form of a loan to the defaulting member, with all of the defaulting member s subsequent distributions being applied to the loan until repayment in full, or (iii) advance the capital on behalf of the defaulting member with a recalculation of each member s proportionate interest in the joint venture pursuant to the applicable formula in the agreements. Many of our Sunrise joint venture agreements provide for a punitive reduction in the defaulting member s proportionate interest in the event of an advance of capital by a non-defaulting member pursuant to option (iii);

- Our joint venture partners may have business interests or goals with respect to the property that conflict with our business interests and goals, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;

- Disputes may develop with our joint venture partners over decisions affecting the property or the joint venture, which may result in litigation or arbitration that would increase our expenses and distract our officers and/or directors from focusing their time and effort on our business and possibly disrupt the day-to-day operations of the property, such as delaying the implementation of important decisions until the conflict or dispute is resolved; and

- We may suffer losses as a result of the actions of our joint venture partners with respect to our joint venture investments.

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We may be adversely affected by fluctuations in currency exchange rates.

We currently own twelve seniors housing communities in the Canadian provinces of Ontario and British Columbia. As a result, we are subject to fluctuations in U.S. and Canadian exchange rates which may, from time to time, have an impact on our financial condition and results of operations. Increases or decreases in the value of the Canadian dollar will impact the amount of our net income. In addition, if we increase our international presence through investments in, and/or acquisitions or development of, seniors housing and/or healthcare assets outside the United States, we may transact additional business in currencies other than U.S. or Canadian dollars. Although we may decide to pursue hedging alternatives, including borrowing in local currencies, to protect against foreign currency fluctuations, we cannot assure you that any such fluctuations will not have a Material Adverse Effect on us.

Our revenues from the seniors housing communities managed by Sunrise are dependent on private pay sources; Events which adversely affect the ability of seniors to afford our daily resident fees could cause our occupancy rates, resident fee revenues and results of operations to decline.

By and large, assisted and independent living services currently are not reimbursable under government reimbursement programs, such as Medicare and Medicaid. Hence, substantially all of the resident fee revenues generated by our Sunrise-managed properties are derived from private pay sources consisting of income or assets of residents or their family members. In general, due to the expense associated with building new properties and the staffing and other costs of providing services at these properties, only seniors with income or assets meeting or exceeding the comparable median in the regions where our properties are located typically can afford to pay the daily resident and care fees. The current economic downturn and decline in the housing market, as well as other events such as changes in demographics, could adversely affect the ability of seniors to afford these fees. If Sunrise is unable to attract and retain seniors with sufficient income, assets or other resources required to pay the fees associated with assisted and independent living services, our occupancy rates, resident fee revenues and results of operations could decline, which, in turn, could have a Material Adverse Effect on us.

Our ownership of properties through ground leases exposes us to the loss of such properties upon breach or termination of the ground leases and limits our uses of these properties and restricts our ability to sell or otherwise transfer such properties.

We have acquired an interest in certain of our properties by acquiring a leasehold interest in the property on which the building is located, and we may acquire additional properties in the future through the purchase of interests in ground leases. As the lessee under a ground lease, we are exposed to the possibility of losing the property upon termination of the ground lease or an earlier breach of the ground lease by us. In addition, many of our ground leases impose significant limitations on our uses of the subject properties and restrict our right to convey our interest in such ground leases, which may limit our ability to timely sell or exchange the properties and impair their value.

Overbuilding in markets in which our seniors housing communities and MOBs are located could adversely affect our future occupancy rates, operating margins and profitability.

Barriers to entry in the assisted living and MOB industries are not substantial. Consequently, the development of new seniors housing communities or MOBs could outpace demand. If the development of new seniors housing communities or MOBs outpaces demand for those asset types in the markets in which our properties are located, those markets may become saturated. Overbuilding in our markets, therefore, could cause us to experience decreased occupancy, reduced operating margins and lower profitability.

Termination of resident lease agreements could adversely affect our revenues and earnings.

Applicable regulations governing assisted living communities generally require written resident lease agreements with each resident. Most of these regulations also require that each resident have the right to terminate the resident lease agreement for any reason on reasonable notice. Consistent with these regulations, the

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resident lease agreements signed by Sunrise with respect to our properties managed by it generally allow residents to terminate their lease agreements on 30 days notice. Thus, Sunrise cannot contract with residents to stay for longer periods of time, unlike typical apartment leasing arrangements with terms of up to one year or longer. In addition, the resident turnover rate in our seniors housing communities may be difficult to predict. If a large number of resident lease agreements terminate at or around the same time, and if our units remained unoccupied, then our revenues and earnings could be adversely affected, which, in turn, could have a Material Adverse Effect on us.

The amount and scope of insurance coverage provided by our policies and policies maintained by our tenants, operators and managers may not adequately insure against losses.

We maintain and/or require in our existing leases and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our properties and their operations. Although we continually review the insurance maintained by us and our tenants, operators and managers and believe the coverage provided to be customary for similarly situated companies in our industry, we cannot assure you that in the future such insurance will be available at a reasonable cost or that we or our tenants, operators and managers will be able to maintain adequate levels of insurance coverage. We also cannot give any assurances as to the future financial viability of our insurers or that the insurance coverage provided will fully cover all losses on our properties upon the occurrence of a catastrophic event.

Should an uninsured loss or a loss in excess of insured limits occur, we could incur substantial liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Significant legal actions could subject our tenants, operators and managers 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 tenants, operators and managers continue to experience increases in both the number and size of professional liability claims. In addition to large compensatory claims, plaintiffs attorneys continue to seek significant punitive damages and attorneys fees. Due to historically high frequency and severity of professional liability claims against healthcare providers, the availability of professional liability insurance has been restricted and the premiums on such insurance coverage remain very high. As a result, the insurance coverage of our tenants, operators and managers might not cover all claims against them or continue to be available to them at a reasonable cost. If our tenants, operators and managers are unable to maintain adequate insurance coverage or are required to pay punitive damages, they may be exposed to substantial liabilities.

In addition, many healthcare providers are pursuing different organizational and corporate structures coupled with self-insurance programs that provide less insurance coverage. For example, Kindred insures its professional liability risks, in part, through a wholly owned, limited purpose insurance company, which 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, and all claims in excess of the aggregate limit are then insured by the limited purpose insurance company. Our tenants, operators and managers, like Kindred, that insure any part of their general and professional liability risks through their own captive limited purpose entities generally estimate the future cost of general and professional liability through actuarial studies which rely primarily on historical data. However, due to the rise in the number and severity of professional claims against healthcare providers, these actuarial studies may underestimate the future cost of claims, and reserves for future claims may not be adequate to cover the actual cost of those claims.

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As a result, the tenants, operators and managers of our properties could incur large funded and unfunded professional liability expense, which could materially adversely affect their liquidity, financial condition and results of operations, and, in turn, their ability to make rental payments under, or otherwise comply with the terms of, their leases with us or, with regard to our Sunrise-managed properties, our results of operations, which 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.

Our success depends, in part, on our ability to retain key personnel, and the loss of any one of them could adversely impact our business.

The success of our business depends, in part, on the leadership and performance of our executive management team and key employees. Our future performance will be substantially dependent on our ability to retain and motivate these individuals. Competition for these individuals is intense, and we cannot give any assurances that we will retain our key officers and employees or that we can attract or retain other highly qualified individuals in the future. Losing any one or more of these persons could have a Material Adverse Effect on us.

Failure to maintain effective internal control over financial reporting could harm our business, results of operations and financial condition.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management s assessment of the effectiveness of such control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any

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failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed and we could fail to meet our reporting obligations.

If the liabilities we have assumed in connection with acquisitions are greater than expected, or if there are unknown liabilities, our business could be materially and adversely affected.

We have assumed certain liabilities in connection with our past acquisitions, including, in some cases, contingent liabilities. As we integrate these acquisitions, we may learn additional information about the seller and liabilities that adversely affects us, such as:

- Liabilities relating to the clean-up or remediation of undisclosed environmental conditions;
- Unasserted claims of vendors or other persons dealing with the seller;
- Liabilities, claims and litigation, whether or not incurred in the ordinary course of business, relating to periods prior to our acquisition;
- Claims for indemnification by general partners, directors, officers and others indemnified by the seller; and
- Liabilities for taxes relating to periods prior to our acquisition.

As a result, we cannot assure you that our past acquisitions will be successful or will not, in fact, harm our business. Among other things, if the liabilities we have assumed are greater than expected, or if there are obligations relating to the acquired properties of which we were not aware at the time we completed the acquisition, our business could be materially adversely affected.

Risks Arising from Our Capital Structure

Limitations on our ability to access capital could have an adverse effect on our ability to meet our debt payments, make distributions to our stockholders or make future investments necessary to implement our business plan.

In order to meet our debt payments, make distributions to our stockholders or make future investments necessary to implement our business plan, we may need to raise additional capital. Over the past few years, the global capital and credit markets have experienced a period of extraordinary turmoil and upheaval, characterized by the bankruptcy, failure or sale of various financial institutions and an unprecedented level of intervention from the U.S. federal government. This disruption in the credit markets, the repricing of credit risk and the deterioration of the financial and real estate markets have created difficult conditions for REITs and other companies to access capital or other sources of funds. These conditions include greater stock price volatility, significantly less liquidity, widening of credit spreads and a lack of price transparency. It is difficult to predict how long these conditions will persist and the extent to which our results of operation and financial condition may be adversely affected.

While we currently have no reason to believe that we will be unable to access our unsecured revolving credit facilities in the future, concern about the stability of the markets generally and the strength of borrowers specifically has led many lenders and institutional investors to reduce and, in some cases, cease funding to borrowers. In addition, the financial institutions that are parties to our unsecured revolving credit facilities might have incurred losses or might have reduced capital reserves on account of their prior lending to borrowers, their holdings of certain mortgage securities or their other financial relationships, in part because of the general weakening of the U.S. economy and the increased financial instability of many borrowers. As a result, these financial institutions might be or become capital constrained and might tighten their lending standards, or become insolvent. If they experience shortages of capital and liquidity, or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time, these lenders might not be able or willing to honor their funding commitments to us, which would adversely affect our ability to draw on our

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unsecured revolving credit facilities and, over time, could negatively impact our ability to consummate acquisitions, repay indebtedness as it matures, fund capital expenditures or make distributions to our stockholders. Continued adverse conditions in the credit markets in future years could also adversely affect the availability and terms of future borrowings, renewals or refinancings.

Our options for addressing such capital constraints would include without limitation (i) obtaining commitments from the remaining banks in our lending group or from new banks to fund increased amounts under the terms of our unsecured revolving credit facilities, (ii) accessing the public capital markets, (iii) obtaining secured loans from government-sponsored entities, pension funds or similar sources, (iv) decreasing or eliminating our distributions to our stockholders or paying taxable stock dividends, and/or (v) delaying or ceasing our acquisition and investment activity. As with other public companies, the availability of debt and equity capital depends, in part, on the trading levels of our bonds and the market price of our common stock, which, in turn, depends upon various market conditions that change from time to time. Among the market conditions and other factors that may affect our bond trading levels and the market price of our common stock is the market s perception of our financial condition, our growth potential and our current and future earnings and cash distributions. Our failure to meet the market s expectation with regard to future earnings and cash distributions would likely adversely affect our bond trading levels and the market price of our common stock. If we cannot access capital or we cannot access capital at an acceptable cost, we may be required to liquidate one or more investments in properties at times that may not permit us to realize the maximum return on those investments, which could also result in adverse tax consequences to us. Restrictions on our uses and right to transfer our properties under certain healthcare regulations, ground leases, mortgages and other agreements to which our properties may be subject could adversely impact our ability to timely liquidate those investments and could impair the value of our properties. We cannot assure you that we will be able to raise the necessary capital to meet our debt service obligations, make distributions to our stockholders or make future investments necessary to implement our business plan, and the failure to do so could have a Material Adverse Effect on us.

We may become more leveraged.

As of December 31, 2009, we had approximately $2.7 billion of indebtedness. Our unsecured revolving credit facilities 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.

In addition, from time to time we mortgage our properties to secure payment of indebtedness. If we are unable to meet our mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of our properties could have a Material Adverse Effect on us.

We are exposed to increases in interest rates, which could reduce our profitability and adversely impact our ability to refinance existing debt, sell assets or engage in acquisition and investment activity, and our decision to hedge against interest rate risk might not be effective.

We receive a significant portion of our revenues 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, Bankers Acceptance 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. Although our operating assets provide a partial hedge against interest rate fluctuations, if interest rates rise, our interest costs for our existing floating rate debt and any new debt we incur would also increase. This increased cost could have the effect of reducing our profitability or making our lease and other revenues insufficient to meet our obligations, and could make the financing of any acquisition or investment activity more costly. Further, rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher rates upon refinancing. An increase in interest rates may also decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

We may seek to manage our exposure to interest rate volatility by using hedging arrangements that involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes, that the amount of income we may earn from hedging transactions may be limited by federal tax provisions governing REITs, and that these arrangements may result in higher interest rates than we would otherwise have. Moreover, no amount of hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate risk, if we choose to engage in such activities, could adversely affect our results of operations and financial condition.

Covenants in our unsecured revolving credit facilities, the indentures governing our senior notes, our mortgage loans and other debt instruments limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of our unsecured revolving credit facilities, the indentures governing our outstanding senior notes, our mortgage loans and other debt instruments require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage, leverage ratios and net worth requirements. Our continued ability to incur indebtedness and operate in general is subject to compliance with these covenants, which limit our operational flexibility. Breaches of these covenants could result in defaults under the applicable debt instruments, in addition to any other indebtedness cross-defaulted against such instruments, even if we satisfy our payment obligations. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a Material Adverse Effect on us.

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, in such event 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.

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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.

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 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. 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 decide to retain cash or to distribute such greater amount as may be necessary to avoid income and excise taxation, 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 Limitations on our ability to access capital could have an adverse effect on our ability to meet our debt payments, make distributions to our stockholders or make future investments necessary to implement our business plan. The terms of our unsecured revolving credit facilities and the indentures governing our outstanding senior notes restrict our ability to engage in some of these transactions.

To preserve our qualification as a REIT, our certificate of incorporation contains ownership limits with respect to our capital stock that may delay, defer or prevent a change of control of our company.

To assist us in preserving our qualification as a REIT, our certificate of incorporation provides that if a person acquires beneficial ownership of more than 9.9% of our outstanding preferred stock or 9.0% of our common stock, the shares that are beneficially owned in excess of the applicable limit are considered to be excess shares and are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by our Board of Directors. The trust is entitled to all dividends with respect to the excess shares and the trustee may exercise all voting power over the excess shares. We have the right to buy the excess shares for a purchase price equal to the lesser of (i) the price per share in the transaction that created the excess shares or (ii) the market price on the day we buy the shares, but if we do not purchase them, the trustee of the trust is required to transfer the excess shares at the direction of the Board of Directors. These ownership limits could delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

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If we decide to pay taxable stock dividends to meet the REIT distribution requirements, your tax liability may be greater than the amount of cash you receive.

The IRS has recently issued Revenue Procedure 2010-12. Under this Revenue Procedure, the IRS will treat stock dividends as distributions for purposes of satisfying the REIT distribution requirements for calendar years 2008 through 2012 if each stockholder can elect to receive the distribution in cash, even if the aggregate cash amount paid to all stockholders is limited, provided certain requirements are met. Accordingly, if we decide to pay a stock dividend in accordance with Revenue Procedure 2010-12, your tax liability with respect to such dividend may be significantly greater than the amount of cash you receive.

ITEM 1B. *Unresolved Staff Comments*

None.

ITEM 2. *Properties*

Seniors Housing and Healthcare Properties

As of December 31, 2009, we owned 505 assets: 244 seniors housing communities, 187 skilled nursing facilities, 40 hospitals and 34 MOBs and other properties in 43 states and two Canadian provinces. We believe that the asset type and geographic diversity of the properties makes our portfolio less susceptible to regional economic downturns and adverse changes in regulation or reimbursement rates or methodologies in any single state.

At December 31, 2009, we had mortgage loan obligations outstanding in the aggregate principal amount of $1.5 billion, secured by 117 our properties.

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The following table sets forth select information regarding the properties we owned as of December 31, 2009 for each geographic location in which we own property:

	Seniors Housing Communities		Skilled Nursing Facilities		Hospitals		MOBs	Other Properties
Geographic Location	**Number of Properties**	**Units**	**Number of Facilities**	**Licensed Beds**	**Number of Hospitals**	**Licensed Beds**	**Number of Properties**	**Number of Properties**
Alabama	2	220	2	329				
Arizona	8	664	3	462	2	109		
Arkansas	6	390						
California	26	3,301	6	771	5	455		
Colorado	6	459	4	464	1	68	5	
Connecticut	4	458	5	522				
Florida	14	1,454			6	511	6	
Georgia	10	837	4	537			2	
Idaho	1	70	7	624				
Illinois	17	2,634	1	82	4	431	2	
Indiana	9	1,001	13	1,867	1	59		
Kansas	3	353						
Kentucky			27	3,054	2	424		
Louisiana	1	58			1	168		
Maine			8	654				
Maryland	2	149					1	
Massachusetts	6	856	26	2,694	2	109		
Michigan	9	771						
Minnesota	9	634	1	140				
Missouri	1	172			2	227	1	
Montana			2	276				
Nebraska	1	136						
Nevada	1	152	2	174	1	52		
New Hampshire			3	512				
New Jersey	9	724	1	153				
New Mexico	3	384			1	61		
New York	14	1,307						
North Carolina	6	438	16	1,802	1	124		
Ohio	16	1,153	12	1,575			2	
Oklahoma					1	59		
Oregon			2	205				
Pennsylvania	24	1,597	6	797	2	115	2	
Rhode Island			2	201				
South Carolina	2	120					1	
Tennessee	5	337	3	397	1	49		
Texas	3	261			7	496	3	8
Utah	1	79	4	411				
Vermont			1	160				
Virginia	5	400	4	629				
Washington	3	320	7	682				
West Virginia	1	59						
Wisconsin	4	170	11	1,825				
Wyoming			4	378			1	
Total U.S.	232	22,118	187	22,377	40	3,517	26	8
British Columbia	3	276						
Ontario	9	848						

Total Canada	12	1,124						
Total	**244**	**23,242**	**187**	**22,377**	**40**	**3,517**	**26**	**8**

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Corporate Offices

We are headquartered in Chicago, Illinois, with offices in Louisville, Kentucky and New York, New York. We lease all of our corporate offices.

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. Except as set forth therein, we are not a party to, nor is any of our property the subject of, any material pending legal proceedings.

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
	High	Low	Declared
2009			
First Quarter	$ 33.49	$ 19.13	$ 0.5125
Second Quarter	32.40	21.66	0.5125
Third Quarter	40.23	27.41	0.5125
Fourth Quarter	44.91	36.19	0.5125
2008			
First Quarter	$ 48.09	$ 39.00	$ 0.5125
Second Quarter	50.39	41.32	0.5125
Third Quarter	52.00	38.84	0.5125
Fourth Quarter	49.60	17.31	0.5125

As of February 15, 2010, there were 156,706,398 shares of our common stock outstanding held by approximately 2,724 stockholders of record.

Dividends and Distributions

We pay regular quarterly dividends to holders of our common stock so as to comply with the provisions of the Code governing REITs. On February 17, 2010, our Board of Directors declared the first quarterly installment of our 2010 dividend in the amount of $0.535 per share, payable in cash on March 31, 2010 to stockholders of record on March 12, 2010. We expect to distribute 100% or more of our taxable net income to our stockholders for 2010. See Certain U.S. Federal Income Tax Considerations Requirements for Qualification as a REIT Annual Distribution Requirements included in Part I, Item 1 of this Annual Report on Form 10-K.

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Our Board of Directors normally makes decisions regarding the nature, frequency and amount of our dividends on a quarterly basis. Because the Board considers a number of factors when making these decisions, including our current and future liquidity needs and position, current and projected results from operations and performance and credit quality of our tenants, operators, managers and borrowers, 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 Part II, 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.

Each of our executive officers has advised us that he or she has not pledged any of our equity securities to secure margin loans.

Stock Repurchases

The table below summarizes repurchases of our common stock made during the quarter ended December 31, 2009:

	Number of Shares Repurchased (1)	Average Price Per Share
October 1 through October 31		
November 1 through November 30		
December 1 through December 31	14,659	$ 44.16

(1) Repurchases represent shares withheld to pay taxes on the vesting of restricted stock granted to employees. The value of the shares withheld is the closing price of our common stock on the date the vesting occurs.

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Stock Performance Graph

The following performance graph compares the cumulative total return (including dividends) to the holders of our common stock from December 31, 2004 through December 31, 2009, with the cumulative total returns of the NYSE Composite Index, the FTSE NAREIT Composite REIT Index (the Composite REIT Index), the FTSE NAREIT Healthcare Equity REIT Index (the Healthcare REIT Index), the Russell 1000 Index and the S&P 500 Index over the same period. The comparison assumes $100 was invested on December 31, 2004 in our common stock and in each of the foregoing indexes and assumes reinvestment of dividends, as applicable. We have included the NYSE Composite Index in the performance graph because our common stock is listed on the NYSE. During 2009, Ventas was added to the S&P 500 Index; accordingly, we have included a comparison to the S&P 500 Index in the graph below and intend to discontinue the use of the Russell 1000 Index in future reports. We have included the other indexes because we believe that they are either most representative of the industry in which we compete, or otherwise provide a fair basis for comparison with Ventas, and are therefore particularly relevant to an assessment of our performance. The figures in the table below are rounded to the nearest dollar.

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Ventas	$ 100	$ 123	$ 170	$ 190	$ 148	$ 206
NYSE Composite Index	$ 100	$ 109	$ 132	$ 143	$ 87	$ 112
Composite REIT Index	$ 100	$ 108	$ 145	$ 119	$ 74	$ 95
Healthcare REIT Index	$ 100	$ 102	$ 147	$ 150	$ 132	$ 165
Russell 1000 Index	$ 100	$ 106	$ 123	$ 130	$ 81	$ 104
S&P 500 Index	$ 100	$ 105	$ 121	$ 128	$ 81	$ 102

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ITEM 6. ***Selected Financial Data***

You should read the following selected financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K and our Consolidated Financial Statements and the notes thereto included in Item 8 of this Annual Report on Form 10-K, as acquisitions, divestitures, changes in accounting policies and other items impact the comparability of the financial data.

	As of and For the Years Ended December 31, (1)				
	2009	2008	2007	2006	2005
	(Dollars in thousands, except per share data)				
Operating Data					
Rental income	$ 501,087	$ 481,368	$ 459,046	$ 383,140	$ 291,421
Resident fees and services	421,058	429,257	282,226		
Interest expense	178,503	204,450	196,660	127,353	92,169
Property-level operating expenses	302,813	306,944	198,125	3,171	2,576
General, administrative and professional fees	38,830	40,651	36,425	26,136	25,075
Income from continuing operations attributable to common stockholders	194,746	175,401	131,504	119,444	114,193
Discontinued operations	71,749	47,202	142,177	11,710	16,390
Net income attributable to common stockholders	266,495	222,603	273,681	131,154	130,583
Per Share Data					
Income from continuing operations attributable to common stockholders, basic	$ 1.28	$ 1.25	$ 1.07	$ 1.15	$ 1.20
Net income attributable to common stockholders, basic	$ 1.75	$ 1.59	$ 2.23	$ 1.26	$ 1.37
Income from continuing operations attributable to common stockholders, diluted	$ 1.27	$ 1.25	$ 1.07	$ 1.14	$ 1.19
Net income attributable to common stockholders, diluted	$ 1.74	$ 1.59	$ 2.22	$ 1.25	$ 1.36
Dividends declared per common share	$ 2.05	$ 2.05	$ 1.90	$ 1.58	$ 1.44
Other Data					
Net cash provided by operating activities	$ 422,101	$ 379,907	$ 404,600	$ 238,867	$ 223,764
Net cash provided by (used in) investing activities	37,013	(136,256)	(1,175,192)	(481,974)	(615,041)
Net cash (used in) provided by financing activities	(528,939)	(95,979)	802,675	242,712	389,553
FFO (2)	393,409	412,357	374,218	249,392	213,203
Normalized FFO (2)	409,045	379,469	327,136	254,878	200,091
Normalized FAD (2)	389,099	356,689	303,453	234,547	185,779
Balance Sheet Data					
Real estate investments, at cost	$ 6,292,621	$ 6,160,630	$ 6,292,181	$ 3,707,837	$ 3,027,896
Cash and cash equivalents	107,397	176,812	28,334	1,246	1,641
Total assets	5,616,245	5,771,418	5,718,475	3,256,021	2,639,118
Senior notes payable and other debt	2,670,101	3,136,998	3,346,531	2,312,021	1,802,564

(1) Effective January 1, 2009, we adopted Financial Accounting Standards Board guidance relating to convertible debt instruments that may be settled in cash upon conversion. See Note 2 Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for detail regarding the impact of the adoption on our Consolidated Financial Statements. This guidance had no impact on our Consolidated Financial Statements for the year ended December 31, 2005.

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(2) We consider Funds From Operations (FFO) and normalized FFO and Funds Available for Distribution (FAD) appropriate measures 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. We define normalized FFO as FFO excluding (a) gains and losses on the sales of assets, including marketable securities, (b) merger-related costs and expenses and deal costs and expenses, including expenses relating to our lawsuit against HCP, Inc. and the issuance of preferred stock or bridge loan fees, (c) the impact of any expenses related to asset impairment and valuation allowances, the write-off of unamortized deferred financing fees, or additional costs, expenses, discounts or premiums incurred as a result of early debt retirement or payment of our debt, including hedging transactions, (d) the non-cash effect of income tax benefits, (e) the reversal of contingent liabilities, (f) gains and losses for foreign currency hedge agreements, (g) one-time expenses in connection with the Kindred rent reset process, (h) net proceeds received by us in relation to litigation, and (i) contributions made to the Ventas Charitable Foundation. Normalized FAD represents normalized FFO excluding straight-line rental adjustments and routine capital expenditures. FFO and normalized FFO and FAD presented herein are not necessarily comparable to FFO and normalized FFO and FAD presented by other real estate companies due to the fact that not all real estate companies use the same definitions. FFO and normalized FFO and FAD should not be considered alternatives to net income (determined in accordance with GAAP) as indicators of our financial performance or alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of our liquidity, nor are FFO and normalized FFO and FAD indicative of sufficient cash flow to fund all of our needs. See Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations included in Item 7 of this Annual Report on Form 10-K for a reconciliation of these measures to our GAAP earnings.

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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:

Our corporate and operating environment;

2009 highlights and other recent developments;

Our critical accounting policies and estimates;

Our results of operations for the last three years;

Asset and liability management;

Our liquidity and capital resources;

Our cash flows; and

Contractual obligations.

Corporate and Operating Environment

We are a real estate investment trust (REIT) with a geographically diverse portfolio of seniors housing and healthcare properties in the United States and Canada. As of December 31, 2009, this portfolio consisted of 505 assets: 244 seniors housing communities, 187 skilled nursing facilities, 40 hospitals and 34 medical office buildings (MOBs) and other properties in 43 states and two Canadian provinces. With the exception of our seniors housing communities that are managed by Sunrise Senior Living, Inc. (together with its subsidiaries, Sunrise) pursuant to long-term management agreements and the majority of our MOBs, we lease our 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 companies or properties as of December 31, 2009.

Our primary business consists of acquiring, financing and owning seniors housing and healthcare properties and leasing those properties to third parties or operating those properties through independent third-party managers. We operate through two reportable business segments: triple-net leased properties and senior living operations.

As of December 31, 2009, we had a 100% ownership interest in 439 of our properties. We had 75% to 85% interests in 60 seniors housing communities owned in joint ventures with Sunrise, and we had controlling interests in six MOBs owned through joint ventures with partners who provide management and leasing services for the properties.

Our business strategy is comprised of three principal objectives: (1) portfolio diversification; (2) stable earnings and growth; and (3) maintaining a strong balance sheet and liquidity.

Access to external capital is an important component of the success of our strategy as it impacts our ability to repay existing indebtedness as it matures and to make future investments. Our cost of and ability to access capital depend on various factors, including general market conditions, interest rates, credit ratings on our securities, perception of our potential future earnings and cash distributions and the market price of our common stock. Generally, we attempt to match the long-term duration of most of our investments with long-term fixed rate financing. At December 31, 2009, only 8.3% of our consolidated debt was variable rate debt.

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As of December 31, 2009, our senior unsecured debt securities were rated BBB- (stable) by Standard & Poor s Ratings Services (S&P), BBB (stable) by Fitch Ratings and Ba1 (stable) by Moody s Investors Service (Moody s). On February 4, 2010, Moody s upgraded the rating on our unsecured debt securities to Baa3 (stable), giving us a third investment grade rating. To the extent it is reasonable to do so, and we believe it to be in the best interests of our stakeholders, we intend to maintain investment grade ratings on our senior debt securities and to manage various capital ratios and amounts within appropriate parameters.

2009 Highlights and Other Recent Developments

Liquidity and Balance Sheet

Following the upgrade by Moody s on February 4, 2010, our unsecured debt securities now have investment grade ratings from all three nationally recognized ratings agencies.

We extended and amended the terms of our unsecured revolving credit facilities from 2010 to 2012. Additionally, we increased our aggregate borrowing capacity under the unsecured revolving credit facilities to $1.0 billion, of which $800.0 million matures on April 26, 2012 and $200.0 million matures on April 26, 2010.

We issued and sold 13,062,500 shares of our common stock in an underwritten public offering for aggregate proceeds of $312.2 million.

We issued and sold $200.0 million aggregate principal amount of our 6 $^{1}/2$% senior notes due 2016, at a 15 $^{3}/4$% discount to par value, for total proceeds of $168.5 million, before the underwriting discount and expenses.

We purchased in open market transactions and/or through cash tender offers $361.6 million aggregate principal amount of our outstanding senior notes due 2010, 2012, 2014 and 2015. We recognized a net loss on extinguishment of debt of $6.1 million related to these transactions.

We repaid in full, at par, $49.8 million principal amount of our outstanding senior notes due 2009, and our mortgage debt obligations decreased by $148.7 million during 2009, including normal periodic principal amortization of $25.8 million and debt transfers of $38.8 million related to asset dispositions.

We obtained first mortgage loans aggregating $172.6 million principal amount, secured by eighteen of our seniors housing communities with a weighted average fixed interest rate of 6.3% per annum.

Investments

We purchased four MOBs for an aggregate purchase price of $77.7 million, increasing our MOB investments to over 1.7 million square feet. We own one of these MOBs through a joint venture with a partner that provides management and leasing services for the property.

We purchased one skilled nursing facility for $10.0 million and leased it to Brookdale Senior Living Inc. (together with its subsidiaries, Brookdale Senior Living).

We completed the development of two MOBs pursuant to an arrangement we entered into with a nationally recognized private developer of MOBs and healthcare facilities in 2008. That arrangement gave us the exclusive right, as part of a joint venture, to develop up to ten identified MOBs on hospital campuses in eight states. As of December 31, 2009, we had invested approximately $35.6 million in two MOBs under the arrangement.

Dispositions

We sold five seniors housing communities, one hospital, one MOB and one other property to the existing tenants for an aggregate sales price (before expenses) of $96.2 million and transferred related debt of $38.8 million. We recognized a net gain from the sales of these assets of $27.5 million.

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We sold six skilled nursing facilities to Kindred Healthcare, Inc. (together with its subsidiaries, Kindred) for total consideration of $58.0 million and recognized a gain from the sale of these assets of $39.3 million.

Other

We were included in the S&P 500 Index, widely regarded as the best single gauge of the large cap U.S. equities market. It includes 500 leading companies in leading industries of the U.S. economy.

Kindred extended, from the renewal date of April 30, 2010 through April 30, 2015, the lease term for 109 assets (one of which we subsequently sold) that it leases from us. At December 31, 2009, annual cash rent on the remaining 108 assets was approximately $126 million.

We received a favorable jury verdict of $101.6 million in our litigation against HCP, Inc. (HCP) due to HCP s interference with our acquisition of Sunrise Senior Living Real Estate Investment Trust (Sunrise REIT) in 2007.

Critical Accounting Policies and Estimates

On July 1, 2009, the Financial Accounting Standards Board (FASB) launched the Accounting Standards Codification (ASC), which changes U.S. generally accepted accounting principles (GAAP) from a standards-based model to a topical-based model. The topics are organized by ASC number and are updated with an Accounting Standards Update. The ASC is the single source of nongovernmental authoritative GAAP for interim and annual periods ending after September 15, 2009.

Our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K have been prepared in accordance with GAAP set forth in the ASC, as published by the FASB. GAAP requires us to make estimates and assumptions about future events 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 revenues and expenses during the reporting periods. We base these estimates on our experience and on various other assumptions believed to be reasonable under the circumstances. However, if our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting treatment would have been applied, resulting in a different presentation of our financial statements. From time to time, we re-evaluate our estimates and assumptions, and in the event estimates or assumptions prove to be different from actual results, we make adjustments in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. We believe that the critical accounting policies described below, 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, see Note 2 Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Principles of Consolidation

The Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K include our accounts and the accounts of our wholly owned subsidiaries and the joint venture entities over which we exercise control. All intercompany transactions and balances have been eliminated in consolidation, and net earnings are reduced by the portion of net earnings attributable to noncontrolling interests. We apply FASB guidance for arrangements with variable interest entities (VIEs), which requires the identification of entities for which control is achieved through means other than voting rights and the determination of which a business enterprise is the primary beneficiary of the VIE. We consolidate investments in VIEs when we are determined to be the primary beneficiary of the VIE.

We must make judgments regarding our level of influence or control of an entity and whether we are (or are not) the primary beneficiary of a VIE. In making those judgments, we consider various factors, including the

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form of our ownership interest, our representation on the entity s governing body, the size and seniority of our investment, various cash flow scenarios related to the VIE, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our ability to correctly assess our influence or control over an entity and determine the primary beneficiary of a VIE affects the presentation of these entities in our Consolidated Financial Statements. In the future, our assumptions may change, which could result in the identification of a different primary beneficiary.

Long-Lived Assets and Intangibles

Investments in real estate assets are recorded at cost. We account for acquisitions using the purchase method and allocate the cost of the properties acquired among tangible and recognized intangible assets and liabilities based upon their estimated fair values as of the acquisition date. Recognized intangibles include the value of acquired lease contracts, management agreements and related customer relationships.

Our method for allocating the purchase price paid to acquire investments in real estate requires us to make subjective assessments for determining fair value of the assets and liabilities acquired or assumed. This includes determining the value of the buildings and improvements, land and improvements, ground leases, tenant improvements, in-place tenant leases, above and/or below market leases, other intangibles embedded in contracts and any debt assumed. Each of these estimates requires significant judgment, and some of the estimates involve complex calculations. These allocation assessments have a direct impact on our results of operations, as amounts allocated to some assets and liabilities have different depreciation or amortization lives. Additionally, the amortization of value assigned to above and/or below market leases is recorded as a component of revenue, as compared to the amortization of in-place leases and other intangibles, which is included in depreciation and amortization in our Consolidated Statements of Income.

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 or on internal analyses of recently acquired and existing comparable properties within our portfolio. The fair value of in-place leases, if any, reflects (i) the estimated value of any above and/or below market leases, determined by discounting the difference between the estimated current market rent and the in-place rentals, the resulting intangible asset or liability of which is amortized to 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 also amortized over the remaining life of the associated lease. We 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 the tenant, the tenant s credit quality, expectations of lease renewals with the tenant, and the potential for significant, additional future leasing arrangements with the tenant and amortize that value over the expected term of the associated arrangements or leases, which includes the remaining lives of the related leases and any expected renewal periods. We calculate the fair value of long-term debt by discounting the remaining contractual cash flows on each instrument at the current market rate for those borrowings, which is approximated based on the rate we estimate we would incur to replace each instrument on the date of acquisition. Any fair value adjustments related to long-term debt are recognized as effective yield adjustments over the remaining term of the instrument.

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, primarily consisting of our investments in real estate, for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the related real

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estate investments in relation to the future undiscounted cash flows of the underlying operations, and we adjust the net book value of leased properties and other long-lived assets to fair value if the sum of the expected future undiscounted cash flows including sales proceeds is less than book value. An impairment loss is recognized at the time we make any such determination. Future events could occur that would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

Business Combinations

For our acquisitions, we measure the assets acquired, liabilities assumed (including contingencies) and any noncontrolling interests at their fair values on the acquisition date. Our acquisition-related transaction costs are included in merger-related expenses and deal costs on our Consolidated Statement of Income for the year ended December 31, 2009. Prior to January 1, 2009, these costs were capitalized as part of the asset value at the time of the acquisition, as required by FASB guidance at that time.

Loans Receivable

Loans receivable are stated at the unpaid principal balance net of any deferred origination fees, purchase discounts or premiums and/or valuation allowances. Net deferred origination fees, which are comprised of loan fees collected from the borrower net of certain direct costs, and purchase discounts or premiums are amortized to income over the contractual life of the loan using the effective interest method. 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 applicable loan or lease agreement, (iii) the financial stability of the borrower or tenant and any guarantor, (iv) the payment history of the borrower or tenant, and (v) current economic conditions. Our level of reserves, if any, for loans and other amounts receivable from third parties fluctuates depending upon all of these factors.

Fair Value

We follow FASB guidance that defines fair value and provides direction for measuring fair value and providing the necessary disclosures. The guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

Level one inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access. Level two inputs are inputs other than quoted prices included in level one that are observable for the asset or liability, either directly or indirectly. Level two inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level three inputs are unobservable inputs for the asset or liability, which are typically based on the reporting entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Additionally, if an entity determines there has been a significant decrease in the volume and level of activity for an asset or liability in relation to the normal market activity for such asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any, weight on that transaction price as an indicator of fair value. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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We record marketable debt and equity securities as available-for-sale and classify them as a component of other assets on our Consolidated Balance Sheets. These securities are recorded at fair market value, with unrealized gains and losses recorded in stockholders equity as a component of accumulated other comprehensive income on our Consolidated Balance Sheets. Interest income, including discount or premium amortization, on marketable debt securities and gains or losses on securities sold, which are based on the specific identification method, are reported in income from loans and investments on our Consolidated Statements of Income.

We determined the valuation of our current investments in marketable securities using level one inputs. Additionally, we determined the valuation allowance for loan losses based on level three inputs. See Note 6 Loans Receivable of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

We also follow FASB guidance relating to the recognition and presentation of other-than-temporary impairments, which requires entities to separate an other-than-temporary impairment of a fixed maturity security into two components when (i) there are credit losses associated with the security that management asserts that it does not have an intent to sell and (ii) it is more likely than not that the entity will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. We have not recognized any other-than-temporary impairment.

Revenue Recognition

Certain of our leases, 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 term of the applicable lease. Income on our straight-line revenue is recognized when collectibility is reasonably assured, and 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.

Our master lease agreements with Kindred (the Kindred Master Leases) and certain of our other leases provide for an annual increase in rental payments only if certain revenue parameters or other substantive contingencies are met. We recognize the increased rental revenue under these leases only if the revenue parameters or other substantive 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 all 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) collectibility is reasonably assured.

We recognize resident fees and services, other than move in fees, monthly as services are provided. Move in fees, which are a component of resident fees and services, are recognized on a straight-line basis over the term of the applicable lease agreement. Lease agreements with residents generally have a term of one year and are cancelable by the resident with 30 days notice.

Federal Income Tax

Since we have elected to be treated as a REIT under the applicable provisions of the Internal Revenue Code of 1986, as amended (the Code), prior to our acquisition of the assets of Sunrise REIT in April 2007 we made no provision for federal income tax purposes. As a result of the Sunrise REIT acquisition, however, we now record income tax expense or benefit with respect to certain of our entities which are taxed as taxable REIT subsidiaries under provisions similar to those applicable to regular corporations and not under the REIT provisions.

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We account for deferred income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in our financial statements or tax returns. Under this method, we determine deferred tax assets and liabilities based on the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. An increase or decrease in the deferred tax liability that results from a change in circumstances, and which causes a change in our judgment about expected future tax consequences of events, would be included in the tax provision when the changes in circumstances and our judgment occurs. Deferred income taxes also reflect the impact of operating loss and tax credit carryforwards. A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. An increase or decrease in the valuation allowance that results from a change in circumstances, and which causes a change in our judgment about the realizability of the related deferred tax asset, would be included in the tax provision when the changes in circumstances and our judgment occurs.

Recently Adopted Accounting Standards

On January 1, 2010, we adopted FASB guidance related to variable interest accounting. The guidance requires an enterprise to analyze whether its variable interest gives it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity s economic performance; and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. The guidance requires an enterprise to perform this analysis on an ongoing basis and requires additional disclosures about an enterprise s involvement in VIEs. We do not believe the adoption of this guidance will impact our Consolidated Financial Statements.

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Results of Operations

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

Years Ended December 31, 2009 and 2008

	Year Ended December 31,		Change	
	2009	2008	$	%
	(Dollars in thousands)			
Revenues:				
Rental income	$ 501,087	$ 481,368	$ 19,719	4.1%
Resident fees and services	421,058	429,257	(8,199)	(1.9)
Income from loans and investments	13,107	8,847	4,260	48.2
Interest and other income	842	4,226	(3,384)	(80.1)
Total revenues	936,094	923,698	12,396	1.3
Expenses:				
Interest	178,503	204,450	(25,947)	(12.7)
Depreciation and amortization	200,911	230,881	(29,970)	(13.0)
Property-level operating expenses	302,813	306,944	(4,131)	(1.3)
General, administrative and professional fees (including non-cash stock-based compensation expense of $11,882 and $9,976 for the years ended 2009 and 2008, respectively)	38,830	40,651	(1,821)	(4.5)
Foreign currency loss (gain)	50	(162)	212	>100
Loss (gain) on extinguishment of debt	6,080	(2,398)	8,478	>100
Merger-related expenses and deal costs	13,015	4,460	8,555	>100
Total expenses	740,202	784,826	(44,624)	(5.7)
Income before reversal of contingent liability, income taxes, discontinued operations and noncontrolling interest	195,892	138,872	57,020	41.1
Reversal of contingent liability		23,328	(23,328)	nm
Income tax benefit	1,719	15,885	(14,166)	(89.2)
Income from continuing operations	197,611	178,085	19,526	11.0
Discontinued operations	71,749	47,202	24,547	52.0
Net income	269,360	225,287	44,073	19.6
Net income attributable to noncontrolling interest, net of tax	2,865	2,684	181	6.7
Net income attributable to common stockholders	$ 266,495	$ 222,603	$ 43,892	19.7%

nm not meaningful

Revenues

The increase in our 2009 rental income can be attributed primarily to $6.4 million of additional rent resulting from the annual escalators in the rent paid under the Kindred Master Leases effective May 1, 2008 and 2009, $8.6 million in additional rent relating to triple-net leased properties and MOBs acquired during 2008 and 2009, a rent reset increase of $1.8 million on four seniors housing communities and three skilled nursing facilities and various other escalations in the rent paid on our other existing properties. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Rental income included in discontinued operations was $3.6 million and $20.0 million for the years ended December 31, 2009 and 2008, respectively.

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Revenues related to our triple-net leased properties segment consist of fixed rental amounts (subject to annual escalations) received directly from our tenants based on the terms of the applicable leases and generally do not depend on the operating performance of our properties. Therefore, while occupancy information is relevant to the operations of our tenants, our revenues and financial results are not directly impacted by the overall occupancy levels or profits at the triple-net leased properties.

Resident fees and services consist of all amounts earned from residents at our seniors housing communities that are managed by Sunrise, including rental fees related to resident leases, extended health care fees and other ancillary service income. The decrease in resident fees and services during 2009 is attributed primarily to an increase in the average Canadian dollar exchange rate, which had an unfavorable impact of $5.0 million in 2009, and lower average occupancy in our communities. Average occupancy rates related to these properties in 2009 and 2008 were as follows:

	Number of Communities		Average Resident Occupancy For the Year Ended December 31,	
	2009	2008	2009	2008
Stabilized Communities	78	73	88.3%	91.4%
Lease-Up Communities	1	6	70.4%	67.2%
Total	79	79	87.7%	89.1%
Same-Store Stabilized Communities	73	73	88.6%	91.4%

Income from loans and investments increased during 2009 primarily due to interest earned on the investments we made during 2008 and 2009. See Note 6 Loans Receivable of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

The decrease in our interest and other income during 2009 is primarily attributable to the resolution in 2008 of a legal dispute and higher interest rates earned on cash balances in 2008.

Expenses

Interest expense included in discontinued operations was $1.2 million and $8.7 million for the years ended December 31, 2009 and 2008, respectively. Total interest expense, including interest allocated to discontinued operations, decreased $33.4 million in 2009 over 2008, primarily due to a $8.6 million reduction in interest from lower effective interest rates and a $25.6 million reduction in interest from lower loan balances. Interest expense includes $7.4 million and $6.4 million of amortized deferred financing fees for the years ended December 31, 2009 and 2008, respectively. Our effective interest rate decreased to 6.3% for the year ended December 31, 2009, from 6.6% for the year ended December 31, 2008. An increase in the average Canadian dollar exchange rate had a favorable impact on interest expense of $0.4 million for the year ended December 31, 2009, compared to the same period in 2008.

Approximately $28.9 million of the decrease in 2009 depreciation and amortization expense is due to in-place lease intangibles related to the Sunrise REIT acquisition, which were fully amortized during the second quarter of 2008. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Property-level operating expenses include expenses incurred for the operations of our seniors housing communities managed by Sunrise, such as labor, food, utilities, marketing, management and other property operating costs, operating expenses of our MOBs and loan receivable valuation allowances. Property-level operating expenses decreased in 2009 primarily due to a $6.0 million loan receivable valuation allowance recorded in 2008, not related to our MOBs or Sunrise-managed communities, and an increase in the average Canadian dollar exchange rate, which had a favorable impact of $3.6 million in 2009. The decrease was partially

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offset by approximately $4 million of property-level expense credits and reconciliations related to our Sunrise-managed communities in 2008 that did not recur in 2009 and MOB growth in 2009.

The decrease in general, administrative and professional fees during 2009 is a result of lower professional fees and dead deal costs recorded in 2008, partially offset by an increase in non-cash stock-based compensation.

The loss on extinguishment of debt in 2009 primarily relates to the purchase, in open market transactions and/or through cash tender offers, of $361.6 million aggregate principal amount of our outstanding senior notes. The gain on extinguishment of debt in 2008 primarily represents the purchase of $176.4 million aggregate principal amount of our outstanding senior notes in open market transactions for a discount.

Merger-related expenses and deal costs primarily consisted of expenses relating to our litigation with HCP arising out of the Sunrise REIT acquisition and, during 2009, deal costs now required by GAAP to be expensed rather than capitalized into the asset value.

Other

We had a $23.3 million deferred tax liability for any built-in gains tax related to the disposition of certain assets owned or deemed to be owned by us prior to our REIT election in 1999. The ten-year period in which these assets were subject to built-in gains tax ended on December 31, 2008. Because we had no pending or planned dispositions of these assets through December 31, 2008 and did not expect to pay any amounts related to this contingent liability, the $23.3 million deferred tax liability was reversed into income during 2008.

Income tax benefit represents a deferred benefit which is due solely to our taxable REIT subsidiaries as a direct result of the Sunrise REIT acquisition. See Note 11 Income Taxes of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Discontinued operations for 2009 include a $67.3 million net gain on the sale of fourteen assets sold during 2009. Discontinued operations for 2008 include a $39.0 million gain on the sale of twelve assets sold during 2008. See Note 5 Dispositions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Net income attributable to noncontrolling interest, net of tax primarily represents Sunrise s share of net income from its ownership percentage in 60 and 61 of our seniors housing communities during 2009 and 2008, respectively.

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Years Ended December 31, 2008 and 2007

	Year Ended December 31, 2008	Year Ended December 31, 2007	Change $	Change %
	(Dollars in thousands)			
Revenues:				
Rental income	$ 481,368	$ 459,046	$ 22,322	4.9%
Resident fees and services	429,257	282,226	147,031	52.1
Income from loans and investments	8,847	2,586	6,261	>100
Interest and other income	4,226	2,839	1,387	48.9
Total revenues	923,698	746,697	177,001	23.7
Expenses:				
Interest	204,450	196,660	7,790	4.0
Depreciation and amortization	230,881	226,517	4,364	1.9
Property-level operating expenses	306,944	198,125	108,819	54.9
General, administrative and professional fees (including non-cash stock-based compensation expense of $9,976 and $7,493 for the years ended 2008 and 2007, respectively)	40,651	36,425	4,226	11.6
Foreign currency gain	(162)	(24,280)	24,118	(99.3)
Gain on extinguishment of debt	(2,398)	(88)	(2,310)	>100
Merger-related expenses and deal costs	4,460	2,979	1,481	49.7
Total expenses	784,826	636,338	148,488	23.3
Income before reversal of contingent liability, income taxes, discontinued operations and noncontrolling interest	138,872	110,359	28,513	25.8
Reversal of contingent liability	23,328		23,328	nm
Income tax benefit	15,885	28,042	(12,157)	(43.4)
Income from continuing operations	178,085	138,401	39,684	28.7
Discontinued operations	47,202	142,177	(94,975)	(66.8)
Net income	225,287	280,578	(55,291)	(19.7)
Net income attributable to noncontrolling interest, net of tax	2,684	1,698	986	
Preferred stock dividends and issuance costs		5,199	(5,199)	nm
Net income attributable to common stockholders	$ 222,603	$ 273,681	$ (51,078)	(18.7)%

nm not meaningful

Revenues

The increase in our 2008 rental income can be attributed primarily to $6.7 million of additional rent resulting from the annual escalators in the rent paid under the Kindred Master Leases effective May 1, 2007 and 2008 and $15.0 million in additional rent relating to triple-net leased properties and MOBs acquired during 2007 and 2008. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Rental income included in discontinued operations was $20.0 million and $30.7 million for the years ended December 31, 2008 and 2007, respectively.

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The increase in resident fees and services during 2008 is attributed to the fact that we did not acquire the Sunrise REIT properties until late April 2007 and, therefore, our results for 2007 reflect only eight months of Sunrise-related revenues. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Average occupancy rates related to our seniors housing communities managed by Sunrise in 2008 and 2007 were as follows:

	Number of Communities		Average Resident Occupancy For the Year Ended December 31,	
	2008	2007	2008	2007
Stabilized Communities	73	72	91.4%	93.0%
Lease-Up Communities	6	7	67.2%	58.8%
Total	79	79	89.1%	90.4%
Same-Store Stabilized Communities	72	72	91.4%	93.0%

Income from loans and investments increased during 2008 primarily due to interest earned on a $50.0 million marketable debt security we purchased in early April 2008 and a first mortgage debt investment of $98.8 million we made in late 2008, partially offset by a gain on the sale of marketable equity securities of $0.9 million recognized in the second quarter of 2007.

The increase in our interest and other income during 2008 is primarily attributable to the resolution in 2008 of a legal dispute.

Expenses

Interest expense included in discontinued operations was $8.7 million and $13.1 million for the years ended December 31, 2008 and 2007, respectively. Total interest expense, including interest allocated to discontinued operations, increased $3.4 million in 2008 over 2007, primarily due to $14.3 million of additional interest from higher loan balances as a result of our 2008 acquisition and loan activity, partially offset by a $11.8 million reduction in interest from lower effective interest rates and a $2.6 million loss due to early repayment of bridge financing in 2007 related to the Sunrise REIT acquisition. Interest expense includes $6.4 million and $4.8 million of amortized deferred financing fees for the years ended December 31, 2008 and 2007, respectively. Our effective interest rate decreased to 6.6% for the year ended December 31, 2008, from 6.9% for the year ended December 31, 2007.

Depreciation and amortization expense increased primarily as result of the properties acquired during 2008 and 2007, partially offset by a $26.9 million decrease in amortization expense due to in-place lease intangibles primarily related to the Sunrise REIT acquisition. These in-place lease intangibles were fully amortized during the second quarter of 2008. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Property-level operating expenses increased primarily due to the Sunrise REIT acquisition, the $6.0 million loan receivable valuation allowance recorded in the third quarter of 2008, and a $4.0 million increase related to the growth of our MOB business. Our results for 2007 reflect only eight months of expenses related to our Sunrise-managed communities due to the late April 2007 acquisition of the Sunrise REIT properties.

The increase in general, administrative and professional fees in 2008 is a result of our enterprise growth, an increase in non-cash stock-based compensation and dead deal costs.

The foreign currency gain in 2007 primarily relates to the Canadian call option contracts we entered into in conjunction with the Sunrise REIT acquisition. See Note 2 Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. No similar contracts were in place during 2008.

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The gain on extinguishment of debt in 2008 primarily represents the purchase of $176.4 million principal amount of our outstanding senior notes in open market transactions for a discount. The gain on extinguishment of debt in 2007 represents the purchase of $5.0 million principal amount of our outstanding senior notes in an open market transaction for a discount.

Merger-related expenses and deal costs primarily consisted of expenses relating to our litigation with HCP arising out of the Sunrise REIT acquisition and, for 2007, also include incremental costs directly related to the Sunrise REIT acquisition.

Other

We had a $23.3 million deferred tax liability to be utilized for any built-in gains tax related to the disposition of certain assets owned or deemed to be owned by us prior to our REIT election in 1999. The ten-year period in which these assets were subject to built-in gains tax ended on December 31, 2008. Because we had no pending or planned dispositions of these assets through December 31, 2008 and did not expect to pay any amounts related to this contingent liability, the $23.3 million deferred tax liability was reversed into income during 2008.

The decrease in discontinued operations is primarily the result of a $129.5 million gain recognized in 2007 from the sale of 22 assets, compared to a $39.0 million gain recognized in 2008 from the sale of twelve assets. See Note 5 Dispositions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Preferred stock dividends and issuance costs in 2007 relate to the issuance and sale of 700,000 shares of our Series A Senior Preferred Stock to fund a portion of the Sunrise REIT acquisition, all of which we redeemed in May 2007 using the proceeds from the sale of our common stock. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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Funds From Operations

Our Funds From Operations (FFO) for the five years ended December 31, 2009 are summarized in the following table:

	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
			(In thousands)		
Net income attributable to common stockholders	$ 266,495	$ 222,603	$ 273,681	$ 131,154	$ 130,583
Adjustments:					
Real estate depreciation and amortization	200,221	230,158	225,408	108,571	78,523
Real estate depreciation related to noncontrolling interest	(6,349)	(6,251)	(3,749)		
Loss on real estate disposals					175
Discontinued operations:					
Gain on sale of real estate assets	(67,305)	(39,026)	(129,478)		(5,114)
Depreciation on real estate assets	347	4,873	8,356	9,667	9,036
FFO	393,409	412,357	374,218	249,392	213,203
Adjustments:					
Reversal of contingent liability		(23,328)		(1,769)	
Provision for loan losses		5,994			
Income tax benefit	(3,459)	(17,616)	(29,095)		
Loss (gain) on extinguishment of debt	6,080	(2,398)	(88)	1,273	1,376
Merger-related expenses and deal costs	13,015	4,460	2,979		
Net gain on sale of marketable equity securities			(864)	(1,379)	
Gain on foreign currency hedge			(24,314)		
Preferred stock issuance costs			1,750		
Bridge loan fee			2,550		402
Rent reset costs				7,361	
Contribution to charitable foundation					2,000
Net proceeds from litigation settlement					(15,909)
Net gain on swap breakage					(981)
Normalized FFO	409,045	379,469	327,136	254,878	200,091
Straight-lining of rental income .	(11,879)	(14,652)	(17,311)	(19,963)	(14,287)
Routine capital expenditures	(8,067)	(8,128)	(6,372)	(368)	(25)
Normalized FAD	$ 389,099	$ 356,689	$ 303,453	$ 234,547	$ 185,779

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 and normalized FFO and Funds Available for Distribution (FAD) appropriate measures 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. We define normalized FFO as FFO excluding (a) gains and losses on the sales of assets, including marketable securities, (b) merger-related costs and expenses and deal costs and expenses, including expenses relating to our lawsuit against HCP and the issuance of preferred stock or bridge loan fees, (c) the impact of any expenses related to asset impairment and valuation allowances, the write-off of unamortized deferred financing fees, or additional costs, expenses, discounts or premiums incurred as a result of

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early debt retirement or payment of our debt, including hedging transactions, (d) the non-cash effect of income tax benefits, (e) the reversal of contingent liabilities, (f) gains and losses for foreign currency hedge agreements, (g) one-time expenses in connection with the Kindred rent reset process, (h) net proceeds received by us in relation to litigation, and (i) contributions made to the Ventas Charitable Foundation. Normalized FAD represents normalized FFO excluding straight-line rental adjustments and routine capital expenditures.

FFO and normalized FFO and FAD presented herein are not necessarily comparable to FFO and normalized FFO and FAD presented by other real estate companies due to the fact that not all real estate companies use the same definitions. FFO and normalized FFO and FAD should not be considered as alternatives to net income (determined in accordance with GAAP) as indicators of our financial performance or as alternatives to cash flow from operating activities (determined in accordance with GAAP) as measures of our liquidity, nor are FFO and normalized FFO and FAD 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 and normalized FFO and FAD should be examined in conjunction with net income as presented in our 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 our 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 foreign currency exchange risk) and credit risk. Effective management of these risks is an important determinant of the absolute levels and variability of our 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 are exposed to market risk for changes in interest rates on borrowings under our unsecured revolving credit facilities, certain of our mortgage loans that are floating rate obligations and mortgage loans receivable. These market risks result primarily from changes in U.S. or Canadian LIBOR rates, the Canadian Bankers Acceptance rate or the U.S. or Canadian Prime rates. We continuously monitor our level of floating rate debt with respect to total debt and other factors, including our assessment of the current and future economic environment.

Interest rate fluctuations generally do not affect our fixed rate debt obligations until such instruments mature. However, changes in interest rates will affect the fair value of our fixed rate instruments. If interest rates have risen at the time our fixed rate debt matures or at the time we refinance such debt, our future earnings and cash flows could be adversely affected by the additional cost of borrowings. Conversely, lower interest rates at the time our debt matures or at the time of refinancing may lower our overall borrowing costs.

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To highlight the sensitivity of 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, 2009 and 2008:

	As of December 31, 2009	As of December 31, 2008
	(In thousands)	
Gross book value	$ 2,477,225	$ 2,592,730
Fair value (1)	2,572,472	2,436,620
Fair value reflecting change in interest rates: (1)		
-100 BPS	2,681,982	2,538,334
+100 BPS	2,469,655	2,340,746

(1) The change in fair value of fixed rate debt was due primarily to debt repayments and overall changes in interest rates, partially offset by additional borrowings.

The table below sets forth certain information with respect to our debt, excluding premiums and discounts:

	As of December 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Balance:		
Fixed rate	$ 2,477,225	$ 2,592,730
Variable rate	224,436	546,410
Total	$ 2,701,661	$ 3,139,140
Percent of total debt:		
Fixed rate	91.7%	82.6%
Variable rate	8.3%	17.4%
Total	100.0%	100.0%
Weighted average interest rate at end of period:		
Fixed rate	6.3%	6.5%
Variable rate	2.1%	2.3%
Total weighted average rate	6.0%	5.8%

The decrease in our outstanding variable rate debt from December 31, 2008 is primarily attributable to payments on our unsecured revolving credit facilities and certain repayments on our variable rate mortgage debt. Pursuant to the terms of certain leases with one of our tenants, if interest rates increase on certain debt that we have totaling $80.0 million as of December 31, 2009, 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 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. Assuming a one percentage point increase in the interest rate related to the variable rate debt, and assuming no change in the outstanding balance as of December 31, 2009, interest expense for 2010 would increase and our net income would decrease by approximately $1.7 million, or $0.01 per common share on a diluted basis. The fair value of our fixed and variable rate debt is based on current interest rates at which we could obtain similar borrowings.

We have investments in marketable debt securities on which we earn interest on a fixed or floating rate basis. We record these investments as available-for-sale at fair market value, with unrealized gains and losses recorded as a component of stockholders equity. Interest rate fluctuations and market conditions will cause the fair market value of these investments to change. As of December 31, 2009, the fair market value of our marketable debt securities, which had an original cost of $58.7 million, was $65.0 million.

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As of December 31, 2009, the fair value of our loans receivable was $129.5 million and was based on our estimates of currently prevailing rates for comparable loans. See Note 6 Loans Receivable and Note 9 Fair Value of Financial Instruments of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

We are also subject to fluctuations in U.S. and Canadian exchange rates which may, from time to time, have an impact on our financial condition and results of operations. Increases or decreases in the value of the Canadian dollar will impact the amount of net income we earn from our Canadian operations. Based on 2009 results, if the Canadian dollar exchange rate were to increase or decrease by $0.10, our net income would decrease or increase, as applicable, by approximately $0.4 million per year. If we increase our international presence through investments in, and/or acquisitions or development of, seniors housing and/or healthcare assets outside the United States, we may also decide to transact additional business in currencies other than U.S. or Canadian dollars. Although we may decide to pursue hedging alternatives (including additional borrowings in local currencies) to protect against foreign currency fluctuations, we cannot assure you that any such fluctuations will not 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 for us to continue to qualify as a REIT (a Material Adverse Effect).

Credit Risk

We derive a significant portion of our revenue 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. Some of our triple-net lease escalators are tied to the Consumer Price Index, with caps, floors or collars. We also earn revenue from residents at our seniors housing communities managed by Sunrise and tenants in our MOBs. For the year ended December 31, 2009, 21.6% of our EBITDA (earnings before interest, taxes, depreciation and amortization) was derived from our senior living operations and MOBs, where rental rates may fluctuate upon lease rollovers and renewals due to economic or market conditions.

For the years ended December 31, 2009 and 2008, Kindred accounted for $246.9 million, or 26.2%, of our total revenues and 38.5% of our total NOI (net operating income) (including amounts in discontinued operations), and $241.2 million, or 25.5%, of our total revenues and 38.0% of our total NOI (including amounts in discontinued operations), respectively. For the years ended December 31, 2009 and 2008, Brookdale Senior Living accounted for $121.4 million, or 12.9%, of our total revenues and 19.1% of our total NOI (including amounts in discontinued operations), and $121.5 million, or 12.8%, of our total revenues and 19.2% of our total NOI (including amounts in discontinued operations), respectively. This concentration of rental revenues and NOI creates credit risk. As a result, Kindred s and Brookdale Senior Living s financial condition and ability to meet their rental payments and other obligations to us has a significant impact on our results of operations and our ability to make distributions to our stockholders. 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, which could also affect its ability to pay rent to us. See Risk Factors Risks Arising from Our Business We depend on Kindred and Brookdale Senior Living for a significant portion of our revenues and operating income; Any inability or unwillingness of Kindred or Brookdale Senior Living to satisfy its obligations under its agreements with us could have a Material Adverse Effect on us included in Part I, Item 1A of this Annual Report on Form 10-K and Note 3 Concentration of Credit Risk of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. We regularly monitor the 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.

For the years ended December 31, 2009 and 2008, senior living operations managed by Sunrise accounted for $421.1 million, or 44.7%, of our total revenues and 18.5% of our total EBITDA (including amounts in

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discontinued operations), and $429.6 million, or 45.4%, of our total revenues and 20.0% of our total EBITDA (including amounts in discontinued operations), respectively.

We are party to management agreements with Sunrise pursuant to which Sunrise currently provides comprehensive property management and accounting services with respect to 79 of our seniors housing communities. Each management agreement has a term of 30 years from its effective date, the earliest of which began in 2004. Pursuant to the management agreements, we pay Sunrise a base management fee of 6% of resident fees and similar revenues, subject to reduction based on below target performance relating to NOI for a pool of properties. The minimum management fee assessable under these agreements is 5% of resident fees and similar revenues of the properties. We also pay incentive fees if a pool of properties exceeds aggregate performance targets relating to NOI; provided, however, that total management fees, including incentive fees, shall not exceed 8% of resident fees and similar revenues. In 2009, we paid a 5.0% management fee for 76 properties and management fees of between 6.0% and 6.5% for three properties. The management agreements also specify that we (or the joint venture to which we are party, as applicable) will reimburse Sunrise for direct or indirect costs necessary to manage our seniors housing communities.

We may terminate our management agreements upon the occurrence of an event of default by Sunrise in the performance of a material covenant or term thereof (including, in certain circumstances, the revocation of any licenses or certificates necessary for operation), subject in each case to Sunrise s rights to cure deficiencies. Each management agreement may also be terminated upon the occurrence of certain insolvency events relating to Sunrise. In addition, if a minimum number of properties fail to achieve a targeted NOI level for a given period, then we may terminate the management agreement on each property in such underperforming pool. This targeted NOI level for each property is based upon an expected operating income projection set at the commencement of the management agreement for the applicable property, with such projection escalating annually. However, various legal and contractual considerations may limit or delay our exercise of any or all of these termination rights.

As of December 31, 2009, we had 75% to 85% interests in 60 seniors housing communities owned in joint ventures with Sunrise, who only has protective rights related to major business decisions. Each of these joint ventures is managed by a board of managers or a general partner, each of which we control. As the controlling member or partner, as the case may be, we have sole authority to make all decisions for our Sunrise joint ventures, except for a limited set of major decisions, which generally include:

- the merger or disposition of substantially all the assets of the joint venture;
- the sale of additional interests in the joint venture;
- the dissolution of the joint venture;
- the disposition of a property owned by the joint venture; and
- the acquisition of any real property.

We can generally transfer our interest in a Sunrise joint venture, without consent, to anyone other than large seniors housing operators or their majority investors. However, Sunrise must obtain our prior consent for any direct or indirect transfer of its noncontrolling interest. With limited exceptions, profits and losses of the joint ventures are allocated on a pro rata basis in accordance with the ownership interests. If either member fails to make a required capital contribution to a joint venture after notice and a cure period, the non-defaulting member may (i) revoke the capital contribution funding notice, (ii) advance to the joint venture the amount of the required capital contribution on behalf of the defaulting member in the form of a loan to the defaulting member, with all of the defaulting member s subsequent distributions being applied to the loan until repayment in full, or (iii) advance the capital on behalf of the defaulting member with a recalculation of each member s proportionate interest in the joint venture pursuant to the applicable formula in the agreements. Many of our Sunrise joint venture agreements provide for a punitive reduction in the defaulting member s proportionate interest in the event of an advance of capital by a non-defaulting member pursuant to option (iii). The joint ventures are generally limited to incurring new or refinanced mortgage indebtedness in excess of 75% of the market value of its properties.

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See Risk Factors Risks Arising from Our Business The properties managed by Sunrise account for a significant portion of our revenues and operating income; Adverse developments in Sunrise s business and affairs or financial condition could have a Material Adverse Effect on us included in Part I, Item 1A of this Annual Report on Form 10-K.

Lease Expirations

As our triple-net leases expire, we are exposed to the risks that our tenants may elect not to renew their leases and, in such event, that we may be unable to reposition the applicable properties on as favorable terms or at all. The following table summarizes our triple-net lease expirations scheduled to occur over the next ten years.

	Number of Tenants	2009 Annual Rental Income (Dollars in thousands)	% of 2009 Total Triple-Net Rental Income (1)
2010	8	$ 981	0.2%
2011			
2012	4	3,759	0.8
2013	90	116,413	25.0
2014	3	3,261	0.7
2015	132	150,752	32.4
2016	1	1,054	0.2
2017			
2018	1	399	0.1
2019	89	126,161	27.1

(1) Total 2009 triple-net rental income excludes income included in discontinued operations.

The failure of our tenants to renew our leases could have a Material Adverse Effect on us. See Risk Factors Risks Arising from Our Business We may be unable to reposition our properties on as favorable terms, or at all, if we have to replace any of our tenants or operators, and we may be subject to delays, limitations and expenses in repositioning our assets included in Part I, Item IA of this Annual Report on Form 10-K.

Liquidity and Capital Resources

During 2009, our principal sources of liquidity were proceeds from issuances of debt and equity securities, debt financings, sales of assets and cash flows from operations. During the next twelve months, our principal liquidity needs are to: (i) fund normal operating expenses; (ii) meet our debt service requirements; (iii) repay $173.8 million of mortgage debt; (iv) fund capital expenditures for our senior living operations and our MOBs; (v) fund acquisitions, investments and/or commitments; and (vi) make distributions to our stockholders to maintain our REIT qualification under the Code. We believe that these needs will be satisfied by cash flows from operations, cash on hand, debt financings, proceeds from sales of assets and borrowings under our unsecured revolving credit facilities. However, if these sources of capital are not available and/or if we make significant acquisitions and investments, we may be required to obtain funding from additional borrowings, assumption of debt from the seller, dispositions 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. See Risk Factors Risks Arising from Our Capital Structure Limitations on our ability to access capital could have an adverse effect on our ability to meet our debt payments, make distributions to our stockholders or make future investments necessary to implement our business plan included in Part I, Item 1A of this Annual Report on Form 10-K.

As of December 31, 2009, we had a total of $107.4 million of unrestricted cash and cash equivalents, consisting primarily of investments in U.S. treasury money market funds and cash related to our senior living operations that is deposited and held in property-level accounts. Funds maintained in the property-level accounts

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are used primarily for the payment of property-level expenses and certain capital expenditures. A portion of the cash maintained in these property-level accounts is distributed to us monthly. At December 31, 2009, we also had escrow deposits and restricted cash of $39.8 million, and unused credit availability of $988.4 million under our unsecured revolving credit facilities.

Unsecured Revolving Credit Facilities

Our aggregate borrowing capacity under the unsecured revolving credit facilities is $1.0 billion, of which $800.0 million matures on April 26, 2012 and $200.0 million matures on April 26, 2010. Borrowings under our unsecured revolving credit facilities bear interest at a fluctuating rate per annum (based on U.S. or Canadian LIBOR, Canadian Bankers Acceptance rate, or the U.S. or Canadian Prime rate) plus an applicable percentage based on our consolidated leverage. At December 31, 2009, the applicable percentage was 0.75% for 2010 maturities and 2.80% for 2012 maturities. Our unsecured revolving credit facilities have a 20 basis point facility fee.

The agreements governing our unsecured revolving credit facilities subject us to a number of restrictive covenants. See Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

As of February 15, 2010, we had approximately $9 million outstanding under our unsecured revolving credit facilities and approximately $155 million of unrestricted cash and cash equivalents, for cash available of approximately $146 million.

Convertible Senior Notes

As of December 31, 2009, we had $230.0 million aggregate principal amount of our 3 $^{7}/8$% Convertible Senior Notes due 2011 outstanding. 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 (December 1, 2011), 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 the current conversion rate of 22.9457 shares per $1,000 principal amount of notes (which equates to a current conversion price of approximately $43.58 per share). The 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 the conversion price our earnings per share will be diluted.

The indenture governing the convertible notes subjects us to a number of restrictive covenants. See Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Certain of our subsidiaries have fully and unconditionally guaranteed the convertible notes.

Senior Notes

As of December 31, 2009, the following series of senior notes issued by our subsidiaries, Ventas Realty, Limited Partnership and Ventas Capital Corporation, were outstanding:

- $1.4 million principal amount of 6 $^{3}/4$% Senior Notes due 2010;
- $82.4 million principal amount of 9% Senior Notes due 2012;
- $71.7 million principal amount of 6 $^{5}/8$% Senior Notes due 2014;

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- \$142.7 million principal amount of 7 $^1/8$% Senior Notes due 2015;

- \$400.0 million principal amount of 6 $^1/2$% Senior Notes due 2016; and

- \$225.0 million principal amount of the 6 $^3/4$% Senior Notes due 2017.

During 2009, we issued and sold \$200.0 million aggregate principal amount of senior notes due 2016 at a 15 ^{3} /4% discount to par value for total proceeds of \$168.5 million, before the underwriting discount and expenses. We also repaid in full, at par, \$49.8 million principal amount of our outstanding 8 $^3/4$% senior notes due 2009 at maturity on May 1, 2009, and purchased in open market transactions and/or through cash tender offers \$361.6 million of our senior notes composed of: \$121.6 million principal amount of our outstanding senior notes due 2010; \$109.4 million principal amount of our outstanding senior notes due 2012; \$103.3 million principal amount of our outstanding senior notes due 2014; and \$27.3 million principal amount of our outstanding senior notes due 2015. We recognized a net loss on extinguishment of debt of \$6.1 million related to these purchases.

During 2008, we purchased \$124.4 million principal amount of our outstanding senior notes due 2009 and \$52.0 million principal amount of our outstanding senior notes due 2010 in open market transactions. As a result of these purchases, we recorded a \$2.5 million gain on the extinguishment of debt in 2008.

We may, from time to time, seek to retire or purchase additional amounts of the outstanding senior notes for cash and/or in exchange for equity securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, prospects for future access to capital and other factors. The amounts involved may be material.

The indentures governing the senior notes subject us to a number of restrictive covenants. However, at any time we maintain investment grade ratings by both Moody s and S&P, the indentures provide that certain of these restrictive covenants will either be suspended or fall away. See Note 8 Borrowing Arrangements of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. We and certain of our subsidiaries have fully and unconditionally guaranteed the senior notes.

Mortgage Loan Obligations

During 2008, we assumed \$34.6 million of facility-level mortgage debt in connection with certain property acquisitions. See Note 4 Acquisitions of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Total facility-level mortgage debt outstanding was approximately \$1.5 billion as of December 31, 2009 and 2008.

During 2009, we closed a pool of seventeen first mortgage loans through a government-sponsored entity aggregating \$132.1 million principal amount. These loans, which are secured by seventeen of our seniors housing communities, mature in July 2019 and bear interest at a weighted average fixed rate of 6.68% per annum. We also closed a first mortgage loan through a government-sponsored entity in the original principal amount of \$40.5 million. This loan is secured by one seniors housing community, matures in November 2014 and bears interest at a fixed rate of 5.14% per annum.

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). Our quarterly dividends in 2009 aggregated \$2.05 per share, which is greater than 100% of our 2009 estimated taxable income. We also intend to pay dividends greater than 100% of taxable income for 2010. On February 17, 2010, our Board of Directors declared a quarterly dividend of \$0.535 per share, payable in cash on March 31, 2010 to holders of record on March 12, 2010.

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 other 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 or any combination of the foregoing. See Certain U.S. Federal Income Tax Considerations Requirements for Qualification as a REIT Annual Distribution Requirements included in Part I, Item 1 of this Annual Report on Form 10-K.

Capital Expenditures

Our tenants generally bear the responsibility to maintain and improve our triple-net leased properties. Accordingly, we do not expect to incur any major capital expenditures in connection with these properties. After the terms of the triple-net leases expire, or in the event that the tenants are unable or unwilling to meet their obligations under those leases, we anticipate funding any capital expenditures for which we may become responsible by cash flows from operations or through additional borrowings. With respect to our MOBs and our senior living communities managed by Sunrise, we expect that capital expenditures will be funded by the cash flows from the properties 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 our unsecured revolving credit facilities and the indentures governing our outstanding Senior Notes. Our ability to borrow may also be limited by our lenders ability and willingness to fund, in whole or in part, borrowing requests under our unsecured revolving credit facilities.

Equity Offerings

In April 2009, 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 automatic shelf registration statement, which expired pursuant to the Commission s rules.

In April 2009, we completed the sale of 13,062,500 shares of our common stock in an underwritten public offering pursuant to the shelf registration statement. We received $312.2 million in aggregate proceeds from the sale, which we used, together with our net proceeds from the sale of the senior notes due 2016, to fund our cash tender offers with respect to the outstanding senior notes, to repay debt and for general corporate purposes.

In 2008, we sold 9,236,083 shares of our common stock in two underwritten public offerings pursuant to our previous shelf registration statement. We received aggregate proceeds of $409.0 million from the sales, which we used to repay indebtedness outstanding under our unsecured revolving credit facilities and for working capital and other general corporate purposes.

Other

We received proceeds of $2.2 million and $6.2 million for the years ended December 31, 2009 and 2008, respectively, from the exercises of outstanding stock options. Future proceeds from 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 increased to 1.6 million as of December 31, 2009, from 1.4 million as of December 31, 2008. The average weighted exercise price was $35.85 as of December 31, 2009.

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We issued approximately 20,800 and 18,400 shares of common stock under our Distribution Reinvestment and Stock Purchase Plan, for net proceeds of $0.6 million and $0.7 million for the years ended December 31, 2009 and 2008, respectively. We currently offer 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.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities was $422.1 million and $379.9 million for the years ended December 31, 2009 and 2008, respectively. Cash flows from operating activities increased in 2009 primarily due to higher rental income, lower interest expense and changes in working capital, partially offset by lower NOI from our senior living operations and increased merger-related expenses and deal costs.

Cash Flows from Investing Activities

Net cash used in investing activities was $1.7 million and $136.3 million for the years ended December 31, 2009 and 2008, respectively. These activities consisted primarily of investments in real estate ($45.7 million and $53.8 million in 2009 and 2008, respectively), capital expenditures ($13.8 million and $16.4 million in 2009 and 2008, respectively), investments in loans receivable and marketable debt securities ($13.8 million and $172.5 million in 2009 and 2008, respectively), proceeds from mortgage loans ($8.0 million and $0.1 million in 2009 and 2008, respectively), proceeds from the sale of investments ($5.0 million in 2009) and proceeds from real estate disposals ($58.5 million and $104.2 million in 2009 and 2008, respectively).

Cash Flows from Financing Activities

Net cash used in financing activities totaled $490.2 million for the year ended December 31, 2009. Proceeds primarily consisted of $365.7 million related to the issuance of debt and $299.2 million from the issuance of common stock. The uses primarily included $292.9 million of net payments made on our unsecured revolving credit facilities, $16.7 million of payments for deferred financing costs, $314.4 million of cash dividend payments to common stockholders, $411.5 million of senior note purchases and repayments, $113.7 million of aggregate principal payments on mortgage obligations and $9.9 million of distributions to noncontrolling interest.

Net cash used in financing activities totaled $96.0 million for the year ended December 31, 2008 and included $288.8 million of cash dividend payments to common stockholders, $416.9 million of aggregate principal payments on mortgage obligations and $15.7 million of distributions to noncontrolling interest. The uses were partially offset by proceeds of $408.5 million from the issuance of common stock, $140.3 million from the issuance of debt and $73.4 million of net borrowings on our unsecured revolving credit facilities.

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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 future periods as of December 31, 2009.

	Total	Less than 1 year (3)	1-3 years (4)	3-5 years (5)	More than 5 years (6)
			(In thousands)		
Long-term debt obligations (1) (2)	$ 3,525,291	$ 360,747	$ 1,016,532	$ 454,041	$ 1,693,971
Operating and ground lease obligations	114,375	2,072	3,500	3,078	105,725
Total	$ 3,639,666	$ 362,819	$ 1,020,032	$ 457,119	$ 1,799,696

(1) Amounts represent contractual amounts due, including interest.
(2) Interest on variable rate debt was based on forward rates obtained as of December 31, 2009.
(3) Includes $1.4 million outstanding principal amount of our senior notes due 2010.
(4) Includes $230.0 million outstanding principal amount of our convertible notes, $82.4 million outstanding principal amount of our senior notes due 2012, and $8.5 million under our unsecured revolving credit facilities that matures in 2012.
(5) Includes $71.7 million outstanding principal amount of our senior notes due 2014.
(6) Includes outstanding principal amounts of $142.7 million of our senior notes due 2015, $400.0 million of our senior notes due 2016 and $225.0 million of our senior notes due 2017.

As of December 31, 2009, we had $15.0 million of unrecognized tax benefits that have been excluded from the table above, as we are unable to make a reasonable reliable estimate of the period of cash settlement, if any, with the respective tax authority.

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.

Index to Consolidated Financial Statements and Financial Statement Schedules

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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) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, evaluated 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 evaluation, management has determined that the Company s internal control over financial reporting as of December 31, 2009 was effective.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein.

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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, 2009 and 2008, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the accompanying index to the financial statements and schedule. These financial statements and schedule are the responsibility of the Company s 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, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, 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, the Company changed its method of accounting for convertible debt instruments and noncontrolling interests with the adoption of the guidance originally issued in FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (codified primarily in FASB ASC Topic 470, Debt) and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (codified primarily in FASB ASC Topic 810, Consolidation), respectively, effective January 1, 2009 and applied retroactively.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ventas Inc. s internal control over financial reporting as of December 31, 2009, 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 19, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

19 February 2010

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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 Ventas, Inc. s internal control over financial reporting as of December 31, 2009, 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 included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, Ventas, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2009 consolidated financial statements and financial statement schedule of Ventas, Inc. and our report dated February 19, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

19 February 2010

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VENTAS, INC.

CONSOLIDATED BALANCE SHEETS

As of December 31, 2009 and 2008

(In thousands, except per share amounts)

	2009	2008
Assets		
Real estate investments:		
Land	$ 557,276	$ 555,015
Buildings and improvements	5,722,837	5,593,024
Construction in progress	12,508	12,591
	6,292,621	6,160,630
Accumulated depreciation	(1,177,911)	(987,691)
Net real estate property	5,114,710	5,172,939
Loans receivable, net	131,887	123,289
Net real estate investments	5,246,597	5,296,228
Cash and cash equivalents	107,397	176,812
Escrow deposits and restricted cash	39,832	55,866
Deferred financing costs, net	29,252	22,032
Other	193,167	220,480
Total assets	$ 5,616,245	$ 5,771,418
Liabilities and equity		
Liabilities:		
Senior notes payable and other debt .	$ 2,670,101	$ 3,136,998
Deferred revenue .	4,315	7,057
Accrued interest	17,974	21,931
Accounts payable and other accrued liabilities	186,130	168,198
Deferred income taxes	253,665	257,499
Total liabilities	3,132,185	3,591,683
Commitments and contingencies		
Equity:		
Ventas stockholders equity:		
Preferred stock, $1.00 par value; 10,000 shares authorized, unissued		
Common stock, $0.25 par value; 300,000 shares authorized; 156,627 and 143,302 shares issued at December 31, 2009 and 2008, respectively	39,160	35,825
Capital in excess of par value	2,573,039	2,264,125
Accumulated other comprehensive income (loss) .	19,669	(21,089)
Retained earnings (deficit)	(165,710)	(117,806)
Treasury stock, 15 shares at December 31, 2009 and 2008	(647)	(457)
Total Ventas stockholders equity	2,465,511	2,160,598

Noncontrolling interest	18,549	19,137
Total equity	2,484,060	2,179,735
Total liabilities and equity	$ 5,616,245	$ 5,771,418

See accompanying notes.

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VENTAS, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2009, 2008 and 2007

(In thousands, except per share amounts)

	2009	2008	2007
Revenues:			
Rental income	$ 501,087	$ 481,368	$ 459,046
Resident fees and services	421,058	429,257	282,226
Income from loans and investments	13,107	8,847	2,586
Interest and other income	842	4,226	2,839
Total revenues	936,094	923,698	746,697
Expenses:			
Interest	178,503	204,450	196,660
Depreciation and amortization	200,911	230,881	226,517
Property-level operating expenses	302,813	306,944	198,125
General, administrative and professional fees (including non-cash stock-based compensation expense of $11,882, $9,976 and $7,493 for the years ended December 31, 2009, 2008 and 2007, respectively)	38,830	40,651	36,425
Foreign currency loss (gain)	50	(162)	(24,280)
Loss (gain) on extinguishment of debt	6,080	(2,398)	(88)
Merger-related expenses and deal costs	13,015	4,460	2,979
Total expenses	740,202	784,826	636,338
Income before reversal of	195,892	138,872	110,359

contingent liability, income taxes, discontinued operations and noncontrolling interest			
Reversal of contingent liability		23,328	
Income tax benefit	1,719	15,885	28,042
Income from continuing operations	197,611	178,085	138,401
Discontinued operations	71,749	47,202	142,177
Net income	269,360	225,287	280,578
Net income attributable to noncontrolling interest, net of tax	2,865	2,684	1,698
Preferred stock dividends and issuance costs			

	 tyle="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;"> Interest rate swaps	Available for sale securities	Equity method investee interest rate swap	Total
Balance as of January 1, 2015	$(2.9)	$0.7	$0.7	$(1.5)
Other comprehensive income (loss), net of tax				
Change in fair value of interest rate swap transactions	(3.9)	—	—	(3.9)
Amounts reclassified to net income from interest rate swaps	3.1	—	—	3.1
Change in fair value of available for sale securities	—	(0.4)	—	(0.4)
Change in fair value of equity method investee interest rate swap	—	—	(1.0)	(1.0)
	(0.8)	(0.4)	(1.0)	(2.2)

Total other comprehensive income (loss), net of tax				
Balance as of September 30, 2015	$(3.7)	$0.3	$(0.3)	$(3.7)

	Interest rate swaps	Available for sale securities	Equity method investee interest rate swap	Total
Balance as of December 26, 2013	$(4.0)	$0.2	$1.4	$(2.4)
Other comprehensive income (loss), net of tax				
Change in fair value of interest rate swap transactions	(1.0)	—	—	(1.0)
Amounts reclassified to net income from interest rate swaps	2.4	—	—	2.4
Change in fair value of available for sale securities	—	0.6	—	0.6
Reclassification adjustment for gain on sale of available for sale securities recognized in net income	—	(0.6)	—	(0.6)
Change in fair value of equity method investee interest rate swap	—	—	(0.2)	(0.2)
Total other comprehensive income (loss), net of tax	1.4	—	(0.2)	1.2
Balance as of September 25, 2014	$(2.6)	$0.2	$1.2	$(1.2)

14. SALE-LEASEBACK TRANSACTIONS

The Company has historically entered into sale and leaseback transactions whereby owned properties were sold and leased back under operating leases. In December 1995, United Artists entered into a sale and leaseback transaction whereby 31 owned properties were sold to and leased back from an unaffiliated third party under a Master Lease. In conjunction with the transaction, the buyer of the properties issued publicly traded pass-through certificates. In connection with this sale and leaseback transaction, United Artists entered into a Participation Agreement that requires United Artists to comply with various covenants, including limitations on indebtedness, restricted payments, transactions with affiliates, guarantees, issuance of preferred stock of subsidiaries and subsidiary distributions, transfer of assets and payment of dividends. As of January 1, 2015, nine operating properties were subject to the sale leaseback transaction and approximately $7.7 million in principal amount of pass-through certificates were outstanding.

On March 27, 2015, the nine operating properties were sold to a third party buyer and the Master Lease and related agreements associated with the December 1995 sale and leaseback transaction were terminated. Upon termination of the Master Lease, United Artists entered into new lease agreements for the nine operating properties. As part of the transaction, United Artists received a reimbursement of its January 2015 rent payment under the Master Lease totaling approximately $4.9 million and received approximately $3.2 million in landlord contributions for three properties that it expects to renovate as part of the transaction. In addition, United Artists is expected to receive an additional $3.2 million of landlord contributions at various milestones starting with commencement of renovation of the three properties. As of September 30, 2015, United Artists has received approximately $1.6 million of such landlord contrbutions. The new lease agreements associated with the three properties each carry an initial base rent term of 15 years beginning at the completion of renovation, and in the interim, provide for contingent rentals based on the revenue results of the underlying theatres. The new lease agreements associated with the six remaining properties each carry a maturity date of December 31, 2016, the same maturity date under the former

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Master Lease. All nine lease agreements provide for the payment of taxes, insurance, and other costs applicable to the properties and have been accounted for as operating leases for accounting purposes. The pass-through certificates fully matured on July 1, 2015.

15. SUBSEQUENT EVENTS

Declaration of Quarterly Dividend

On October 27, 2015, the Company declared a cash dividend of $0.22 per share on each share of the Company’s Class A and Class B common stock (including outstanding restricted stock), payable on December 15, 2015, to stockholders of record on December 4, 2015.

Other

On November 9, 2015, RealD, Inc. and Rizvi Traverse Management, LLC announced that they have entered into a definitive agreement pursuant to which Rizvi Traverse Management, LLC will acquire RealD, Inc. for $11.00 per share, in an all-cash merger transaction. Under the terms of the agreement, RealD, Inc. shareholders will receive $11.00 in cash for each share of RealD, Inc.’s common stock. Upon completion of the transaction, RealD, Inc. will become a privately held company. The RealD, Inc. Board of Directors approved the agreement and recommends that RealD, Inc. shareholders vote in favor of the transaction. The proposed transaction is subject to closing conditions including receipt of shareholder and regulatory approvals and is currently expected to close in the fourth quarter of fiscal 2016 or shortly thereafter.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this quarterly report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, may constitute forward-looking statements. In some cases you can identify these “forward-looking statements” by words like “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “potential” or “continue” or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain factors as more fully discussed under the heading “Risk Factors” contained in our annual report on Form 10-K filed on March 2, 2015 with the Commission (File No. 001-31315) for the Company’s fiscal year ended January 1, 2015 and in the Company's Quarterly Report on Form 10-Q filed with the Commission on August 10, 2015. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein.

Overview and Basis of Presentation

We conduct our operations through our wholly owned subsidiaries. We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 7,357 screens in 571 theatres in 42 states along with Guam, Saipan, American Samoa and the District of Columbia as of September 30, 2015. We believe the size, reach and quality of our theatre circuit provide an exceptional platform to realize economies of scale from our theatre operations. We also maintain an investment in National CineMedia, which concentrates on in-theatre advertising. The Company manages its business under one reportable segment: theatre exhibition operations.

We generate revenues primarily from admissions and concession sales. Additional revenues are generated by our vendor marketing programs, our gift card and discount ticket programs, various other activities in our theatres and our relationship with National CineMedia. Film rental costs depend primarily on the popularity and box office revenues of a film, and such film rental costs generally increase as the admissions revenues generated by a film increase. Because we purchase certain concession items, such as fountain drinks and popcorn, in bulk and not pre-packaged for individual servings, we are able to maximize our margins by negotiating volume discounts. Other operating expenses consist primarily of theatre labor and occupancy costs.

The Company's revenues are usually seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, motion picture studios release the most marketable motion pictures during the summer and holiday seasons. The emergence or continuance of a "hit" film during other periods can alter the traditional pattern. The timing of movie releases can have a significant effect on the Company's results of operations, and the results of one fiscal quarter are not necessarily indicative of the results for the next or any other fiscal quarter. The seasonality of motion picture exhibition, however, has become less pronounced as motion picture studios are releasing motion pictures somewhat more evenly throughout the year. The Company does not believe that inflation has had a material impact on its financial position or results of operations.

On September 3, 2015, Regal completed the acquisition of five theatres with 61 screens from entities affiliated with Georgia Theatre Company for an aggregate net cash purchase price, before post-closing adjustments, of $9.2 million. The results of operations of the five acquired theatres have been included in the Company's consolidated financial statements for periods subsequent to the acquisition date. See Note 3—"Acquisition" for further discussion of this transaction.

For a summary of industry trends as well as other risks and uncertainties relevant to the Company, see "Business—Industry Overview and Trends" and "Risk Factors" contained in our annual report on Form 10-K for the fiscal year ended January 1, 2015 and "Risk Factors" contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, all of which are incorporated herein by reference and "Results of Operations" below.

Critical Accounting Estimates

For a discussion of accounting policies that we consider critical to our business operations and the understanding of our results of operations and affect the more significant judgments and estimates used in the preparation of our unaudited condensed consolidated financial statements, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" contained in our annual report on Form 10-K for the fiscal year ended January 1, 2015 and incorporated by reference herein. As of September 30, 2015, there were no significant changes in our critical accounting policies or estimation procedures.

Significant Events

For a discussion of other significant operating, financing and investing transactions which have occurred through January 1, 2015, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in Part II, Item 7 of our annual report on Form 10-K for the fiscal year ended January 1, 2015 and incorporated herein by reference.

Our business strategy is predicated on our ability to allocate capital effectively to enhance value for our stockholders. This strategy focuses on enhancing our position in the motion picture exhibition industry by distributing value to our stockholders, capitalizing on prudent industry consolidation and partnership opportunities, managing, expanding and upgrading our existing asset base with new technologies and customer amenities and realizing selective growth opportunities through new theatre construction. Our business strategy should enable us to continue to produce the free cash flow necessary to maintain a prudent allocation of our capital among dividend payments, debt service and repayment and investment in our theatre assets, all to provide meaningful value to our stockholders. During the three quarters ended September 30, 2015 ("Fiscal 2015 Period"), we continued to make progress with respect to our business strategy as follows:

- We demonstrated our commitment to providing incremental value to our stockholders. Total cash dividends paid to our stockholders during the Fiscal 2015 Period totaled approximately $104.7 million.

- We continued to embrace innovative concepts that generate incremental revenue and cash flows for the Company and deliver a premium movie-going experience for our customers on several complementary fronts:

First, we continued to focus on improving customer amenities, including our planned installation of luxury reclining seats in approximately 500 auditoriums during fiscal 2015 (the costs of these conversions in some cases are partially covered by investments from our theatre landlords). As of September 30, 2015, we offered luxury reclining seating in 675 auditoriums at 65 select theatre locations.

Secondly, we continued the expansion of our menu of food and alcoholic beverage offerings to additional theatre locations. As of September 30, 2015, we offered an expanded menu of food and/or alcoholic beverage items in 225 locations and by the end of fiscal 2015, we expect to offer an expanded menu of food in approximately 185 locations and alcoholic beverages in approximately 135 locations.

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Third, we have continued to focus on our frequent moviegoer loyalty program, the Regal Crown Club®, which now has approximately 13.2 million members.

- In addition to the acquisition of five theatres and 61 screens from entities affiliated with Georgia Theatre Company, we continued to actively manage our asset base during the Fiscal 2015 Period by opening one new theatre with 12 screens and closing nine underperforming theatres with 83 screens, ending the Fiscal 2015 Period with 571 theatres and 7,357 screens.

We believe the continued rollout of customer amenities and engagement initiatives, the broadening of our food and alcoholic beverage offerings, coupled with the product-driven success of our IMAX® and RPX℠ screens, allow us to deliver a premium movie-going experience for substantially all of our customers. We believe this strategy will enable us to differentiate our services in certain markets and build brand loyalty, which we believe will provide us the opportunity for incremental revenue and cash flows.

Recent Developments

On October 27, 2015, the Company declared a cash dividend of $0.22 per share on each share of the Company’s Class A and Class B common stock (including outstanding restricted stock), payable on December 15, 2015, to stockholders of record on December 4, 2015.

On November 9, 2015, RealD, Inc. and Rizvi Traverse Management, LLC announced that they have entered into a definitive agreement pursuant to which Rizvi Traverse Management, LLC will acquire RealD, Inc. for $11.00 per share, in an all-cash merger transaction. Under the terms of the agreement, RealD, Inc. shareholders will receive $11.00 in cash for each share of RealD, Inc.’s common stock. Upon completion of the transaction, RealD, Inc. will become a privately held company. The RealD, Inc. Board of Directors approved the agreement and recommends that RealD, Inc. shareholders vote in favor of the transaction. The proposed transaction is subject to closing conditions including receipt of shareholder and regulatory approvals and is currently expected to close in the fourth quarter of fiscal 2016 or shortly thereafter.

Results of Operations

Based on our review of industry sources, North American box office revenues for the time period that corresponds to Regal’s third fiscal quarter of 2015 were estimated to have increased by approximately two to three percent in comparison to the third fiscal quarter of 2014. The industry’s box office results for the third quarter of 2015 were positively impacted by strong attendance from the breadth and commercial success of the overall film slate during the quarter.

Beginning January 2, 2015, the Company's fiscal year changed from a 52-53 week fiscal year ending on the first Thursday after December 25 of each year to a fiscal year ending on December 31 of each year. Accordingly, effective for the Company's current fiscal year ending December 31, 2015, the Company’s quarterly results will be for three month periods ending March 31, June 30, September 30 and December 31 of each year.

The following table sets forth the percentage of total revenues represented by certain items included in our unaudited condensed consolidated statements of income for the quarter ended September 30, 2015 ("Q3 2015 Period"), the quarter ended September 25, 2014 ("Q3 2014 Period"), the Fiscal 2015 Period and the three quarters ended September 25, 2014 ("Fiscal 2014 Period") (dollars in millions, except average ticket prices and average concessions per patron):

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	Q3 2015 Period		Q3 2014 Period		Fiscal 2015 Period		Fiscal 2014 Period	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenues:								
Admissions	$469.9	64.8 %	$461.1	66.5 %	$1,492.6	65.5 %	$1,467.7	67.0 %
Concessions	214.7	29.6	194.5	28.0	660.6	29.0	607.5	27.7
Other operating revenues	40.4	5.6	38.2	5.5	125.9	5.5	115.8	5.3
Total revenues	725.0	100.0	693.8	100.0	2,279.1	100.0	2,191.0	100.0
Operating expenses:								
Film rental and advertising costs(1)	246.7	52.5	244.7	53.1	795.7	53.3	773.2	52.7
Cost of concessions(2)	24.8	11.6	25.7	13.2	85.2	12.9	80.3	13.2
Rent expense(3)	104.8	14.5	104.5	15.1	315.1	13.8	315.4	14.4
Other operating expenses(3)	216.0	29.8	188.2	27.1	632.9	27.8	592.4	27.0
General and administrative expenses (including share-based compensation of $2.2 for the Q3 2015 Period and Q3 2014 Period, and $6.1 and $6.4 for the Fiscal 2015 Period and Fiscal 2014 Period, respectively)(3)	17.6	2.4	17.3	2.5	55.5	2.4	54.2	2.5
Depreciation and amortization(3)	52.8	7.3	51.9	7.5	161.0	7.1	154.3	7.0
Net loss on disposal and impairment of operating assets(3)	10.4	1.4	2.9	0.4	16.3	0.7	6.5	0.3
Total operating expenses(3)	673.1	92.8	635.2	91.6	2,061.7	90.5	1,976.3	90.2
Income from operations(3)	51.9	7.2	58.6	8.4	217.4	9.5	214.7	9.8
Interest expense, net(3)	33.3	4.6	29.3	4.2	96.5	4.2	94.0	4.3
Loss on extinguishment of debt(3)	—	—	—	—	5.7	0.3	62.4	2.8
Earnings recognized from NCM(3)	(8.4)	1.2	(6.5)	0.9	(20.6)	0.9	(23.3)	1.1
Equity in income of non-consolidated entities and other, net(3)	(9.3)	1.3	(8.6)	1.2	(26.3)	1.2	(19.6)	0.9
Provision for income taxes(3)	14.4	2.0	18.0	2.6	63.9	2.8	42.3	1.9
Net income attributable to controlling interest(3)	$21.9	3.0	$26.7	3.8	$98.4	4.3	$59.3	2.7
Attendance (in thousands)	51,136	*	50,814	*	160,819	*	162,035	*
Average ticket price(4)	$9.19	*	$9.07	*	$9.28	*	$9.06	*
Average concessions per patron(5)	$4.20	*	$3.83	*	$4.11	*	$3.75	*

* Not meaningful

(1) Percentage of revenues calculated as a percentage of admissions revenues.
(2) Percentage of revenues calculated as a percentage of concessions revenues.
(3) Percentage of revenues calculated as a percentage of total revenues.
(4) Calculated as admissions revenues/attendance.
(5) Calculated as concessions revenues/attendance.

Admissions

During the Q3 2015 Period, total admissions revenues increased $8.8 million, or 1.9%, to $469.9 million, from $461.1 million in the Q3 2014 Period. A 1.3% increase in average ticket prices (approximately $6.1 million of total admissions revenues) coupled with a 0.6% increase in attendance (approximately $2.7 million of total admissions revenues) led to the increase in the Q3 2015 Period admissions revenues. For the Q3 2015 Period, the 1.3% average ticket price increase was due to selective price increases identified during our ongoing periodic pricing reviews, partially offset by a decrease in the

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percentage of our admissions revenues generated by premium format films exhibited during the Q3 2015 Period. The increase in attendance during the Q3 2015 Period was primarily a result of strong attendance from the breadth and commercial success of the overall film slate during the period. Based on our review of certain industry sources, the increase in our admissions revenues on a per screen basis was relatively consistent with the industry's per screen results for the Q3 2015 Period as compared to the Q3 2014 Period. We are optimistic that the industry's investment in new theatres and customer amenities and other recent industry initiatives and trends will drive continued growth and strength for the domestic motion picture industry. To that end, our market share may be positively or negatively impacted by such initiatives and trends during any given quarter.

Total admissions revenues increased $24.9 million, or 1.7%, during the Fiscal 2015 Period to $1,492.6 million, from $1,467.7 million in the Fiscal 2014 Period. A 2.4% increase in average ticket prices (approximately $35.4 million of total admissions revenues), partially offset by a 0.8% decrease in attendance (approximately $10.5 million of total admissions revenues) led to the increase in the Fiscal 2015 Period admissions revenues. For the Fiscal 2015 Period, the 2.4% average ticket price increase was due to selective price increases identified during our ongoing periodic pricing reviews and an increase in the percentage of our admissions revenues generated by premium format films exhibited during the Fiscal 2015 Period. The decrease in attendance during the Fiscal 2015 Period as compared to the Fiscal 2014 Period was primarily related to the timing of our fiscal calendar. The Fiscal 2014 Period included six days after Christmas through New Year's Day, a traditionally high attendance period for the Company and the industry, while the Fiscal 2015 Period did not include any days during the Christmas to New Year's Day period. The six days of operations between Christmas and New Year's Day were significant in that they accounted for approximately 7.8 million attendees, or 4.8%, of the Fiscal 2014 Period total attendance and contributed to approximately $68.9 million, or 4.7%, of the Fiscal 2014 Period total admissions revenues.

Concessions

During the Q3 2015 Period, total concessions revenues increased $20.2 million, or 10.4%, to $214.7 million, from $194.5 million in the Q3 2014 Period. Average concessions revenues per patron during the Q3 2015 Period increased 9.7%, to $4.20, from $3.83 in the Q3 2014 Period. The 9.7% increase in average concessions revenues per patron (approximately $18.9 million of total concessions revenues), coupled with the 0.6% increase in attendance (approximately $1.3 million of total concessions revenues) led to the increase in the Q3 2015 Period concessions revenues. The increase in average concessions revenues per patron for the Q3 2015 Period was primarily attributable to an increase in popcorn and beverage sales volume, selective price increases and the continued rollout of our expanded food and alcohol menu.

Total concessions revenues increased $53.1 million, or 8.7%, to $660.6 million in the Fiscal 2015 Period, from $607.5 million in the Fiscal 2014 Period. Average concessions revenues per patron during the Fiscal 2015 Period increased 9.6%, to $4.11, from $3.75 in the Fiscal 2014 Period. The 9.6% increase in average concessions revenues per patron (approximately $57.9 million of total concessions revenues), partially offset by a 0.8% decrease in attendance (approximately $4.8 million of total concessions revenues) led to the increase in the Fiscal 2015 Period concessions revenues. The decrease in attendance during the Fiscal 2015 Period was primarily related to the timing of our fiscal calendar described above. Attendance for the six days after Christmas through New Year's Day contributed to approximately $27.4 million, or 4.5%, of the Fiscal 2014 Period total concessions revenues. The increase in average concessions revenues per patron for the Fiscal 2015 Period was primarily attributable to an increase in popcorn and beverage sales volume, selective price increases and the continued rollout of our expanded food and alcohol menu.

Other Operating Revenues

During the Q3 2015 Period, other operating revenues increased $2.2 million, or 5.8%, to $40.4 million, from $38.2 million in the Q3 2014 Period. Other operating revenues increased $10.1 million, or 8.7%, to $125.9 million during the Fiscal 2015 Period, from $115.8 million in the Fiscal 2014 Period. Included in other operating revenues are the theatre access fees paid by National CineMedia (net of payments for onscreen advertising time provided to our beverage concessionaire), revenues from our vendor marketing programs, other theatre revenues (consisting of theatre rentals, internet ticketing surcharges, arcade games and other) and revenues related to our gift card and discount ticket programs. The increase in other operating revenues during the Q3 2015 Period was primarily due to an increase in other theatre revenues primarily related to internet ticketing surcharges (approximately $1.5 million) and incremental National CineMedia revenues (approximately $0.9 million). During the Fiscal 2015 Period, the increase in other operating revenues was due to an increase in other theatre revenues primarily related to internet ticketing surcharges (approximately $3.5 million), an increase in revenues from our vendor marketing programs (approximately $3.0 million), incremental National CineMedia revenues (approximately $2.6 million), and an increase in revenues related to our gift card and discount ticket programs (approximately $1.0 million).

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Film Rental and Advertising Costs

Film rental and advertising costs as a percentage of admissions revenues for the Q3 2015 Period decreased to 52.5% from 53.1% in the Q3 2014 Period. Film rental and advertising costs as a percentage of admissions revenues for the Fiscal 2015 Period increased to 53.3% from 52.7% in the Fiscal 2014 Period. The decrease in film rental and advertising costs as a percentage of box office revenues during the Q3 2015 Period was primarily attributable to the breadth of the overall film slate during the period. The increase in film rental and advertising costs as a percentage of box office revenues during the Fiscal 2015 Period was primarily attributable to higher film costs associated with the success of the top tier films exhibited during the Fiscal 2015 Period.

Cost of Concessions

Cost of concessions decreased $0.9 million, or 3.5%, to $24.8 million during the Q3 2015 Period, from $25.7 million in the Q3 2014 Period. Cost of concessions increased $4.9 million, or 6.1%, to $85.2 million during the Fiscal 2015 Period, from $80.3 million in the Fiscal 2014 Period. Cost of concessions as a percentage of concessions revenues for the Q3 2015 Period was approximately 11.6% compared to 13.2% during the Q3 2014 Period. For the Fiscal 2015 Period, cost of concessions as a percentage of concessions revenues was approximately 12.9% compared to 13.2% during the Fiscal 2014 Period. The decrease in cost of concessions as a percentage of concessions revenues during the Q3 2015 Period and the Fiscal 2015 Period was primarily related to the amount of vendor marketing revenues recorded as a reduction of cost of concessions and the impact of the aforementioned price increases during such periods, partially offset by slightly higher raw material and packaged good costs for certain items and the mix of concession products sold.

Rent Expense

During the Q3 2015 Period, rent expense totaled $104.8 million, an increase of $0.3 million, or 0.3%, from $104.5 million in the Q3 2014 Period. During the Fiscal 2015 Period, rent expense totaled $315.1 million, a decrease of $0.3 million, or 0.1%, from $315.4 million in the Fiscal 2014 Period. Rent expense during the the Q3 2015 Period and Fiscal 2015 Period was primarily impacted by incremental rent associated with the opening of seven new theatres with 75 screens and the acquisition of five theatres and 61 screens subsequent to the end of the Q3 2014 Period, offset by the restructuring of an existing master lease covering nine operating properties described further in Note 13—"Sale-Leaseback Transactions" and the closure of 14 theatres with 126 screens subsequent to the end of the Q3 2014 Period.

Other Operating Expenses

Other operating expenses increased $27.8 million, or 14.8%, to $216.0 million during the Q3 2015 Period, from $188.2 million in the Q3 2014 Period. During the Fiscal 2015 Period, other operating expenses increased $40.5 million, or 6.8%, to $632.9 million, from $592.4 million in the Fiscal 2014 Period. The increase in other operating expenses during the Q3 2015 Period was primarily attributable to the impact of a State of New York sales tax refund received by the Company during the Q3 2014 Period totaling approximately $16.8 million, increases in theatre level payroll expenses (approximately $6.4 million) and increases in non-rent occupancy costs (approximately $2.7 million) during the Q3 2015 Period. During the Fiscal 2015 Period, the increase in other operating expenses was primarily attributable to the impact of the aforementioned Fiscal 2014 Period State of New York sales tax refund of approximately $16.8 million, increases in theatre level payroll expenses (approximately $13.1 million), increases in other theatre operating expenses (approximately $7.0 million) and increases in non-rent occupancy costs (approximately $4.0 million) during the Fiscal 2015 Period.

General and Administrative Expenses

For the Q3 2015 Period, general and administrative expenses increased $0.3 million, or 1.7%, to $17.6 million as compared to $17.3 million in the Q3 2014 Period. General and administrative expenses increased $1.3 million, or 2.4%, to $55.5 million during the Fiscal 2015 Period, from $54.2 million in the Fiscal 2014 Period. The increase in general and administrative expenses during the Q3 2015 Period was primarily attributable to higher corporate payroll costs. The increase in general and administrative expenses during the Fiscal 2015 Period was primarily attributable to higher legal and professional fees and corporate payroll costs, partially offset by lower share-based compensation expense and corporate travel expenditures during the period.

Depreciation and Amortization

Depreciation and amortization expense increased $0.9 million, or 1.7%, to $52.8 million during the Q3 2015 Period, from $51.9 million in the Q3 2014 Period. During the Fiscal 2015 Period, depreciation and amortization expense increased

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$6.7 million, or 4.3%, to $161.0 million, from $154.3 million in the Fiscal 2014 Period. The increase in depreciation and amortization expense during the Q3 2015 Period and the Fiscal 2015 Period was primarily related to the opening of seven new theatres with 75 screens (partially offset by the closure of 14 theatres with 126 screens) subsequent to the end of the Q3 2014 Period and incremental depreciation and amortization expense associated with increased capital expenditures related to the installation of luxury reclining seats subsequent to the Q3 2014 Period.

Income from Operations

During the Q3 2015 Period, income from operations decreased $6.7 million, or 11.4%, to $51.9 million, from $58.6 million in the Q3 2014 Period. Income from operations increased $2.7 million, or 1.3%, to $217.4 million in the Fiscal 2015 Period, from $214.7 million in the Fiscal 2014 Period. The decrease in income from operations during the Q3 2015 Period was primarily attributable to increases in certain variable operating expense line items described above, partially offset by an increase in total revenues. The increase in income from operations during the Fiscal 2015 Period was primarily attributable to an increase in total revenues, partially offset by increases in certain variable operating expense line items described above.

Interest Expense, net

Net interest expense increased $4.0 million, or 13.7%, to $33.3 million during the Q3 2015 Period, from $29.3 million in the Q3 2014 Period. During the Fiscal 2015 Period, net interest expense increased $2.5 million, or 2.7%, to $96.5 million, from $94.0 million in the Fiscal 2014 Period. The increase in net interest expense during the Q3 2015 Period was primarily due to incremental interest associated with a higher effective interest rate under the New Term Facility. The increase in net interest expense during the Fiscal 2015 Period was primarily due to incremental interest associated with a higher effective interest rate under the New Term Facility, partially offset by interest savings associated with the refinance of approximately $711.4 million aggregate principal amount of the Company's $9^1/_8$% Senior Notes and $8^5/_8$% Senior Notes with the March 2014 issuance of our $5^3/_4$% Senior Notes Due 2022.

Earnings Recognized from NCM

During the Q3 2015 Period, earnings recognized from NCM increased $1.9 million, or 29.2%, to $8.4 million, from $6.5 million in the Q3 2014 Period. Earnings recognized from NCM decreased $2.7 million, or 11.6%, to $20.6 million in the Fiscal 2015 Period, from $23.3 million in the Fiscal 2014 Period. The increase in earnings recognized from National CineMedia during the Q3 2015 Period was primarily attributable to higher earnings of National CineMedia. The decrease in earnings recognized from National CineMedia during the Fiscal 2015 Period was primarily attributable to lower earnings of National CineMedia.

Income Taxes

The provision for income taxes of $14.4 million and $18.0 million for the Q3 2015 Period and the Q3 2014 Period, respectively, reflect effective tax rates of approximately 39.7% and 40.5%, respectively. The provision for income taxes of $63.9 million and $42.3 million for the Fiscal 2015 Period and the Fiscal 2014 Period, respectively, reflect effective tax rates of approximately 39.4% and 41.8%, respectively. The decrease in the effective tax rate for the Q3 2015 Period is primarily attributable to a decrease in the effective tax rates in certain states during the Q3 2015 Period. The decrease in the effective tax rate for the Fiscal 2015 Period is primarily attributable to a decrease in the effective tax rates in certain states during the Fiscal 2015 Period and the state tax effects of the $62.4 million ($39.2 million after related tax effects) loss on debt extinguishment associated with the repurchase of approximately $711.4 million aggregate principal amount of the Company's $9^1/_8$% Senior Notes and Regal Cinemas' $8^5/_8$% Senior Notes during the Fiscal 2014 Period, which was not deductible in certain states. The effective tax rates for all periods presented also reflect the impact of certain non-deductible expenses and income tax credits.

Net Income Attributable to Controlling Interest

During the Q3 2015 Period, net income attributable to controlling interest was $21.9 million, which represents a decrease of $4.8 million, from net income attributable to controlling interest of $26.7 million during the Q3 2014 Period. Net income attributable to controlling interest for the Fiscal 2015 Period was $98.4 million, which represents an increase of $39.1 million, from net income attributable to controlling interest of $59.3 million during the Fiscal 2014 Period. The decrease in net income attributable to controlling interest for the Q3 2015 Period was primarily attributable to the decrease in operating income as described above. The increase in net income attributable to controlling interest for the Fiscal 2015 Period was primarily attributable to the impact of the $62.4 million ($39.2 million after related tax effects) loss on debt extinguishment associated with the repurchase of approximately $711.4 million aggregate principal amount of the Company's $9^1/_8$% Senior Notes and

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Regal Cinemas' $8^5/_8$% Senior Notes during the Fiscal 2014 Period and to a lesser extent, an increase in operating income as described above.

Liquidity and Capital Resources

On a consolidated basis, we expect our primary uses of cash to be for operating expenses, capital expenditures, investments, acquisitions, general corporate purposes related to corporate operations, debt service and the Company's dividend payments. The principal sources of liquidity are cash generated from operations, cash on hand and borrowings under the Amended Senior Credit Facility described below. Under the terms of the Amended Senior Credit Facility, Regal Cinemas is restricted as to how much it can advance or distribute to Regal, its indirect parent. Since Regal is a holding company with no significant assets other than the stock of its subsidiaries, this restriction could impact Regal's ability to effect future debt or dividend payments, pay corporate expenses, repurchase or retire for cash its $5^3/_4$% Senior Notes Due 2022, its $5^3/_4$% Senior Notes Due 2023 and its $5^3/_4$% Senior Notes Due 2025. In addition, as described further below, the indentures under which the $5^3/_4$% Senior Notes Due 2022, the $5^3/_4$% Senior Notes Due 2023, and the $5^3/_4$% Senior Notes Due 2025 are issued limit the Company's (and its restricted subsidiaries') ability to, among other things, incur additional indebtedness, pay dividends on or make other distributions in respect of its capital stock, purchase or redeem capital stock, make loans or advances to its subsidiaries, or purchase, redeem or otherwise acquire or retire certain subordinated obligations.

Operating Activities

Our revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit cards at the point of sale. Our operating expenses are primarily related to film and advertising costs, rent and occupancy and payroll. Film costs are ordinarily paid to distributors within 30 days following receipt of admissions revenues and the cost of the Company’s concessions are generally paid to vendors approximately 30 to 35 days from purchase. Our current liabilities include items that will become due within 12 months. In addition, from time to time, we use cash from operations and borrowings to fund dividends in excess of net income attributable to controlling interest and cash flows from operating activities less cash flows from investing and other financing activities. As a result, at any given time, our balance sheet may reflect a working capital deficit.

Net cash flows provided by operating activities totaled approximately $216.7 million and $185.0 million for the Fiscal 2015 Period and the Fiscal 2014 Period, respectively. The $31.7 million increase in net cash flows generated by operating activities for the Fiscal 2015 Period as compared to the Fiscal 2014 Period was caused by a change in working capital activity of approximately $27.7 million and a $4.0 million increase in net income excluding non-cash items. Working capital activity was primarily impacted by changes in accrued expense and other activity and changes in trade and other receivables activity during the Fiscal 2015 Period as compared to the Fiscal 2014 Period. The change in accrued expense and other activity was primarily due to the timing of certain vendor payments associated with increased attendance and admissions revenues at our theatres during the latter part of the Fiscal 2015 Period. The increase in trade and other receivables activity was primarily attributable to the timing of our estimated Federal and state income tax payments during such periods.

Investing Activities

Our capital requirements have historically arisen principally in connection with acquisitions of theatres, new theatre construction, strategic partnerships, the addition of luxury amenities in select theatres, adding new screens to existing theatres, and other upgrades to the Company’s theatre facilities and replacing equipment. We fund the cost of capital expenditures through internally generated cash flows, cash on hand, landlord contributions and proceeds from disposition of assets and financing activities.

We intend to continue to grow our theatre circuit through selective expansion and acquisition opportunities. The Company has a formal and intensive review procedure for the authorization of capital projects, with the most important financial measure of acceptability for a discretionary non-maintenance capital project being whether its projected discounted cash flow return on investment meets or exceeds the Company's internal rate of return targets. We currently expect capital expenditures (net of proceeds from asset sales and landlord contributions) for theatre development, expansion, upgrading and replacements to be in the range of approximately $135.0 million to $145.0 million in fiscal year 2015, exclusive of acquisitions.

As further described in Note 3—"Acquisition," on September 3, 2015, the Company completed the acquisition of five theatres with 61 screens from entities affiliated with Georgia Theatre Company in exchange for an aggregate net cash purchase price, before post-closing adjustments, of $9.2 million.

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During the Fiscal 2015 Period, we received approximately 0.6 million newly issued common units of National CineMedia in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement. This transaction caused a proportionate increase in the Company's ownership share in National CineMedia to 26.4 million common units. On a fully diluted basis, we own a 20.2% interest in NCM, Inc. as of September 30, 2015.

Net cash flows used in investing activities totaled approximately $127.1 million and $89.8 million for the Fiscal 2015 Period and the Fiscal 2014 Period, respectively. The $37.3 million increase in cash flows used in investing activities during the Fiscal 2015 Period, as compared to the Fiscal 2014 Period, was primarily attributable a $22.4 million increase in capital expenditures (net of proceeds from disposals) during the Fiscal 2015 Period, $9.2 million of cash used for the acquisition further described in Note 3—"Acquisition," and the impact of $6.0 million in proceeds received related to the sale of RealD, Inc. common stock during the Fiscal 2014 Period.

Financing Activities

As described further in Note 4—"Debt Obligations," on April 2, 2015, Regal Cinemas entered into the Amended Senior Credit Facility, with Credit Suisse AG and the lenders party thereto which amends, restates and refinances the Prior Senior Credit Facility among Regal Cinemas, Credit Suisse, Cayman Islands Branch, and the lenders party thereto. The Amended Senior Credit Facility consists of the New Term Facility in an aggregate principal amount of $965.8 million with a final maturity date in April 2022 and the New Revolving Facility in an aggregate principal amount of $85.0 million with a final maturity date in April 2020. The New Term Facility amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount of the New Term Facility, with the balance payable on the New Term Facility maturity date. Proceeds of the New Term Facility (approximately $963.3 million, net of debt discount) were applied to refinance the term loan under the Prior Senior Credit Facility, which had an aggregate outstanding principal balance of approximately $963.2 million. As a result of the amendment, the Company recorded a loss on debt extinguishment of approximately $5.7 million during the quarter ended June 30, 2015.

In connection with the Amended Senior Credit Facility, on April 2, 2015, Regal Cinemas entered into amendments of two of its existing interest rate swap agreements (which are described further in Note 11—"Derivative Instruments") initially designated to hedge $350.0 million of variable rate debt obligations under the prior Senior Credit Facility. The amended interest rate swaps require Regal Cinemas to pay interest at fixed rates ranging from 1.22% to 2.165% (formerly 0.817% to 1.828%) and receive interest at a variable rate.

As of September 30, 2015, we had approximately $961.1 million aggregate principal amount outstanding (net of debt discount) under the New Term Facility, $775.0 million aggregate principal amount outstanding under the $5^3/_4$% Senior Notes Due 2022, $250.0 million aggregate principal amount outstanding under the $5^3/_4$% Senior Notes Due 2023, and $250.0 million aggregate principal amount outstanding under the $5^3/_4$% Senior Notes Due 2025. As of September 30, 2015, we had approximately $2.7 million outstanding in letters of credit, leaving approximately $82.3 million available for drawing under the New Revolving Facility. As of September 30, 2015, we are in full compliance with all agreements, including all related covenants, governing our outstanding debt obligations.

On October 27, 2015, the Company declared a cash dividend of $0.22 per share on each share of the Company’s Class A and Class B common stock (including outstanding restricted stock), payable on December 15, 2015, to stockholders of record on December 4, 2015. Declared dividends have been or will be funded through cash flow from operations and available cash on hand. We, at the discretion of the board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

Net cash flows used in financing activities were approximately $137.1 million and $132.1 million for the Fiscal 2015 Period and the Fiscal 2014 Period, respectively. The $5.0 million increase in cash flows used in financing activities during the Fiscal 2015 Period as compared to the Fiscal 2014 Period was primarily attributable to the net impact of the Amended Senior Credit Facility refinancing effected during the Fiscal 2015 Period, partially offset by landlord contributions received in connection with amended lease financing arrangements and lower payments on long-term obligations.

EBITDA

Earnings before interest, taxes and depreciation and amortization ("EBITDA") was approximately $122.4 million and $125.9 million for the Q3 2015 Period and the Q3 2014 Period, respectively, and $419.8 million and $349.9 million for the Fiscal 2015 Period and the Fiscal 2014 Period, respectively. EBITDA for the Q3 2015 Period was in line with that of the Q3

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2014 Period. The increase in EBITDA for the Fiscal 2015 Period was primarily attributable the impact of the $62.4 million loss on debt extinguishment associated with the repurchase of approximately $711.4 million aggregate principal amount of the Company's $9^{1}/_{8}$% Senior Notes and Regal Cinemas' $8^{5}/_{8}$% Senior Notes during the Fiscal 2014 Period and to a lesser extent, an increase in operating income as described above.

The Company uses EBITDA as a supplemental liquidity measure because we find it useful to understand and evaluate our capacity, excluding the impact of interest, taxes, and non-cash depreciation and amortization charges, for servicing our debt, paying dividends and otherwise meeting our cash needs, prior to our consideration of the impacts of other potential sources and uses of cash, such as working capital items. We believe that EBITDA is useful to investors for these purposes as well. EBITDA should not be considered an alternative to, or more meaningful than, net cash provided by or used in operating activities, as determined in accordance with U.S. generally accepted accounting principles ("GAAP"), since it omits the impact of interest, taxes and changes in working capital that use or provide cash (such as receivables, payables and inventories) as well as the sources or uses of cash associated with changes in other balance sheet items (such as long-term loss accruals and deferred items). Because EBITDA excludes depreciation and amortization, EBITDA does not reflect any cash requirements for the replacement of the assets being depreciated and amortized, which assets will often have to be replaced in the future. Further, EBITDA, because it also does not reflect the impact of debt service, income taxes, cash dividends, capital expenditures and other cash commitments from time to time as described in more detail elsewhere in this Form 10-Q, does not represent how much discretionary cash we have available for other purposes. Nonetheless, EBITDA is a key measure expected by and useful to our fixed income investors, rating agencies and the banking community all of whom believe, and we concur, that these measures are critical to the capital markets' analysis of our ability to service debt, fund capital expenditures, pay dividends and otherwise meet cash needs, respectively. We also evaluate EBITDA because it is clear that movements in these non-GAAP measures impact our ability to attract financing and pay dividends. EBITDA, as calculated, may not be comparable to similarly titled measures reported by other companies. A reconciliation of EBITDA to net cash (used in) provided by operating activities is calculated as follows (in millions):

	Q3 2015 Period	Q3 2014 Period	Fiscal 2015 Period	Fiscal 2014 Period
EBITDA	$122.4	$125.9	$419.8	$349.9
Interest expense, net	(33.3)	(29.3)	(96.5)	(94.0)
Provision for income taxes	(14.4)	(18.0)	(63.9)	(42.3)
Deferred income taxes	(9.7)	(7.2)	(22.5)	(7.7)
Changes in operating assets and liabilities	(155.5)	(96.5)	(59.7)	(87.4)
Loss on extinguishment of debt	—	—	5.7	62.4
Landlord contributions	13.4	1.2	27.5	2.9
Other items, net	4.2	(4.0)	6.3	1.2
Net cash (used in) provided by operating activities	$(72.9)	$(27.9)	$216.7	$185.0

Contractual Cash Obligations and Commitments

The Company has assumed long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. Other than the operating leases that are detailed below, the Company does not utilize variable interest entities or any other form of off-balance sheet financing. As of September 30, 2015, the Company's estimated contractual cash obligations and commercial commitments over the next several periods are as follows (in millions):

	Payments Due By Period				
	Total	Current	13 - 36 months	37 - 60 months	After 60 months
Contractual Cash Obligations:					

Debt obligations(1)	$2,245.6	$13.6	$ 22.1	$ 22.1	$2,187.8
Future interest on debt obligations(2)	781.8	114.1	224.1	217.1	226.5
Capital lease obligations, including interest(3)	19.7	3.4	4.4	1.8	10.1
Lease financing arrangements, including interest(3)	135.1	20.9	42.5	34.2	37.5
Purchase commitments(4)	90.2	65.3	23.0	1.9	—
Operating leases(5)	2,930.4	422.9	781.0	600.5	1,126.0
FIN 48 liabilities(6)	—	—	—	—	—
Total	$6,202.8	$640.2	$ 1,097.1	$ 877.6	$3,587.9

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	Amount of Commitment Expiration per Period				
	Total Amounts Available	Current	13 - 36 months	37 - 60 months	After 60 months
Other Commercial Commitments(7)	$85.0	$—	$ —	$ 85.0	$—

(1) These amounts are included on our unaudited consolidated balance sheet as of September 30, 2015. Our Amended Senior Credit Facility provides for mandatory prepayments under certain scenarios as further described in Note 4—"Debt Obligations."

(2) Future interest payments on the Company's unhedged debt obligations (consisting of approximately $511.1 million of variable interest rate borrowings under the New Term Facility, $775.0 million outstanding under the $5^3/_4$% Senior Notes Due 2022, $250.0 million outstanding under the $5^3/_4$% Senior Notes Due 2023, $250.0 million outstanding under the $5^3/_4$% Senior Notes Due 2025 and approximately $9.5 million of other debt obligations) are based on the stated fixed rate or in the case of the $511.1 million of variable interest rate borrowings under the New Term Facility, the current interest rate specified in our Amended Senior Credit Facility as of September 30, 2015 (3.75%). Future interest payments on the Company's hedged indebtedness as of September 30, 2015 (the remaining $450.0 million of borrowings under the New Term Facility) are based on (1) the applicable margin (as defined in Note 4—"Debt Obligations") as of September 30, 2015 (3.0%) and (2) the expected fixed interest payments under the Company's three effective interest rate swap agreements, which are described further detail under Note 11—"Derivative Instruments" to the accompanying unaudited condensed consolidated financial statements.

(3) The present value of these obligations, excluding interest, is included on our consolidated balance sheet as of September 30, 2015. Future interest payments are calculated based on interest rates implicit in the underlying leases, which have a weighted average interest rate of 11.29%, maturing in various installments through 2028. Refer to Note 4—"Debt Obligations" to the accompanying unaudited condensed consolidated financial statements and Note 5 to the 2014 Audited Consolidated Financial Statements for additional information about our capital lease obligations and lease financing arrangements.

(4) Includes estimated capital expenditures and investments to which we were committed as of September 30, 2015, including improvements associated with existing theatres (including luxury reclining seating), the construction of new theatres and investments in non-consolidated entities. With respect to our luxury reclining seating conversions, we expect to receive approximately $28.7 million in landlord contributions to partially cover the costs of such conversions.

(5) We enter into operating leases in the ordinary course of business. Such lease agreements provide us with the option to renew the leases at defined or then fair value rental rates for various periods. Our future operating lease obligations would change if we exercised these renewal options or if we enter into additional operating lease agreements. Our operating lease obligations are further described in Note 6 to the 2014 Audited Consolidated Financial Statements.

(6) The table does not include approximately $8.1 million of recorded liabilities associated with unrecognized state tax benefits because the timing of the related payments was not reasonably estimable as of September 30, 2015.

(7) In addition, as of September 30, 2015, Regal Cinemas had approximately $82.3 million available for drawing under the $85.0 million New Revolving Facility. Regal Cinemas also maintains a sublimit within the New Revolving Facility of $10.0 million for short-term loans and $30.0 million for letters of credit.

Recent Accounting Pronouncements

For a discussion of the recent accounting pronouncements relevant to our operations, please refer to the information provided under Note 10—"Recent Accounting Pronouncements" of our notes to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 (Financial Statements) of this Form 10-Q, which information is incorporated herein by reference.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks including interest rate risk and equity price risk. The Company's interest rate risk is confined to interest rate exposure of its and its wholly owned subsidiaries' debt obligations that bear interest based on floating rates. The Amended Senior Credit Facility provides variable rate interest that could be adversely affected by an increase in interest rates. Borrowings under the New Term Facility bear interest, at Regal Cinemas' option, at either a base rate or an adjusted LIBOR rate plus, in each case, an applicable margin as described in Note 4 —"Debt Obligations."

Under the terms of the Company's three effective interest rate swap agreements (which hedge an aggregate of $450.0 million of variable rate debt obligations as of September 30, 2015) described in Note 11 —"Derivative Instruments," Regal Cinemas pays interest at fixed rates ranging from 1.220% to 2.165% and receives interest at a variable rate.

As of September 30, 2015 and January 1, 2015, borrowings of $961.1 million (net of debt discount) and $965.8 million, respectively, were outstanding under the New Term Facility and the term facility under the Prior Senior Credit Facility at an effective interest rate of 4.22% (as of September 30, 2015) and 3.23% (as of January 1, 2015), after the impact of the interest rate swaps is taken into account. A hypothetical change of 10% in the Company's effective interest rate under the New Term Facility as of September 30, 2015, would increase or decrease interest expense by $1.0 million for the quarter ended September 30, 2015.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Commission under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive, principal financial and principal accounting officers (whom we refer to in this periodic report as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officers, the effectiveness of our disclosure controls and procedures as of September 30, 2015, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 30, 2015, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Information required to be furnished by us under this Part II, Item 1 (Legal Proceedings) is incorporated by reference to Note 7—"Commitments and Contingencies" of our notes to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 (Financial Statements) of this quarterly report on Form 10-Q.

Item 1A. RISK FACTORS

There have been no material changes from risk factors as previously disclosed in our annual report on Form 10-K filed on March 2, 2015 with the Commission (File No. 001-31315) for the fiscal year ended January 1, 2015, as the same have been updated by our quarterly report on Form 10-Q filed on August 10, 2015 with the Commission (File No. 001-31315) for the quarter ended June 30, 2015.

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Item 6. EXHIBITS

Exhibit Number	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer of Regal
31.2	Rule 13a-14(a) Certification of Chief Financial Officer of Regal
32	Section 1350 Certifications
101	Financial statements from the quarterly report on Form 10-Q of Regal Entertainment Group for the quarter ended September 30, 2015, filed on November 9, 2015, formatted in XBRL: (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Income, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows and (v) the Notes to Unaudited Condensed Consolidated Financial Statements tagged as detailed text

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	REGAL ENTERTAINMENT GROUP
Date: November 9, 2015	By: /s/ AMY E. MILES Amy E. Miles Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2015	By: /s/ DAVID H. OWNBY David H. Ownby Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)

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