

VENTAS INC
Form 10-K
February 13, 2015

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2014

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 (IRS Employer
Incorporation or Organization) Identification No.)
353 N. Clark Street, Suite 3300, Chicago, Illinois 60654
(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 No

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, 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 Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a 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

The aggregate market value of shares of the Registrant's common stock held by non-affiliates of the Registrant, computed by reference to the closing price of the common stock as reported on the New York Stock Exchange as of June 30, 2014, was \$18.8 billion. For purposes of the foregoing calculation only, all directors, executive officers and 10% beneficial owners of the Registrant have been deemed affiliates.

As of February 10, 2015, 330,809,789 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2015 are incorporated by reference into Part III, Items 10 through 14 of this Annual Report on Form 10-K.

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’, borrowers’ or managers’ expected future financial condition, results of operations, cash flows, funds from operations, dividends and dividend plans, financing opportunities and plans, capital markets transactions, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, dispositions, merger integration, growth opportunities, expected lease income, continued qualification as a real estate investment trust (“REIT”), plans and objectives of management for future operations, and statements that include words such as “anticipate,” “if,” “believe,” “plan,” “estimate,” “expect,” “intend,” “may,” “could,” “should,” “will,” and other similar expressions are forward-looking statements. These forward-looking statements are inherently uncertain, and 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 “SEC”). These factors include without limitation:

The ability and willingness of our tenants, operators, borrowers, managers and other third parties to satisfy 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 and investments, including investments in different asset types and outside the United States;

Macroeconomic conditions such as a disruption of or lack of access to the capital markets, changes in the debt rating on U.S. government securities, default or delay in payment by the United States of its obligations, and changes in the federal or state budgets resulting in the reduction or nonpayment of Medicare or Medicaid reimbursement rates;

The nature and extent of future competition, including new construction in the markets in which our seniors housing communities and medical office buildings (“MOBs”) are located;

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 borrowing costs as a result of changes in interest rates and other factors;

The ability of our operators and managers, as applicable, to comply with laws, rules and regulations in the operation of our properties, to deliver high-quality services, to attract and retain qualified personnel and to attract residents and patients;

Changes in general economic conditions or economic conditions in the markets in which we may, from time to time, compete, and the effect of those changes on our revenues, earnings and capital sources;

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

Our ability and willingness to maintain our qualification as a REIT in light of economic, market, legal, tax and other considerations;

Final determination of our taxable net income for the year ended December 31, 2014 and for the year ending December 31, 2015;

The ability and willingness of our tenants to renew their leases with us upon expiration of the leases, our ability to reposition our properties on the same or better terms in the event of nonrenewal or in the event we exercise our right to replace an existing tenant, and obligations, including indemnification obligations, we may incur in connection with the replacement of an existing tenant;

Risks associated with our senior living operating portfolio, such as factors that can cause volatility in our operating income and earnings generated by those properties, including without limitation national and regional economic conditions, costs of food, 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;

• Changes in exchange rates for any foreign currency in which we may, from time to time, conduct business;

• Year-over-year changes in the Consumer Price Index (“CPI”) or the UK Retail Price Index and the effect of those changes on the rent escalators contained in our leases and on our earnings;

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

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

• Risks associated with our MOB portfolio and operations, including our ability to successfully design, develop and manage MOBs, to accurately estimate our costs in fixed fee-for-service projects and to retain key personnel;

• The ability of the hospitals on or near whose campuses our MOBs are located and their affiliated health systems to remain competitive and financially viable and to attract physicians and physician groups;

• Our ability to build, maintain and expand our relationships with existing and prospective hospital and health system clients;

• Risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision-making authority and our reliance on our joint venture partners’ financial condition;

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

Merger and acquisition activity in the healthcare and seniors housing industries resulting in a change of control of, or a competitor’s investment in, one or more of our tenants, operators, borrowers or managers or significant changes in the senior management of our tenants, operators, borrowers or managers;

• The impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our tenants, operators, borrowers or managers; and

• Changes in accounting principles, or their application or interpretation, and our ability to make estimates and the assumptions underlying the estimates, which could have an effect on our earnings.

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.

Brookdale Senior Living, Kindred, Atria and Sunrise Information

Each of Brookdale Senior Living Inc. (together with its subsidiaries, “Brookdale Senior Living”) and Kindred Healthcare, Inc. (together with its subsidiaries, “Kindred”) is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale Senior Living and Kindred contained or referred to in this Annual Report on Form 10-K has been derived from SEC filings made by Brookdale Senior Living or Kindred, as the case may be, or other publicly available information or was provided to us by Brookdale Senior Living or Kindred, and we have not verified this information through an independent investigation or otherwise. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you of its accuracy. We are providing this data for informational purposes only, and you are encouraged to obtain Brookdale Senior Living’s and Kindred’s publicly available filings, which can be found on the SEC’s website at www.sec.gov. Neither Atria Senior Living, Inc. (“Atria”) nor Sunrise Senior Living, LLC (together with its subsidiaries, “Sunrise”) is currently subject to the reporting requirements of the SEC. The information related to Atria and Sunrise contained or referred to in this Annual Report on Form 10-K has been derived from publicly available information or was provided to us by Atria or Sunrise, as the case may be, and we have not verified this information through an independent investigation or otherwise. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you of its accuracy.

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PART I

ITEM 1. Business

BUSINESS

Overview

Ventas, Inc., an S&P 500 company, is a REIT with a highly diversified portfolio of seniors housing and healthcare properties located throughout the United States, Canada and the United Kingdom. As of December 31, 2014, we owned more than 1,500 properties (including properties classified as held for sale), consisting of seniors housing communities, MOBs, skilled nursing and other facilities, and hospitals, and we had one new property under development. Our company was originally founded in 1983 and is currently headquartered in Chicago, Illinois. We primarily invest in seniors housing and healthcare properties through acquisitions and lease our properties to unaffiliated tenants or operate them through independent third-party managers. As of December 31, 2014, we leased a total of 922 properties (excluding MOBs and properties classified as held for sale) to various healthcare operating companies under “triple-net” or “absolute-net” leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and we engaged independent operators, such as Atria and Sunrise, to manage 270 seniors housing communities for us pursuant to long-term management agreements.

Through our Lillibridge Healthcare Services, Inc. (“Lillibridge”) subsidiary and our ownership interest in PMB Real Estate Services LLC (“PMBRES”), we also provide MOB management, leasing, marketing, facility development and advisory services to highly rated hospitals and health systems throughout the United States. In addition, from time to time, we make secured and unsecured loans and other investments relating to seniors housing and healthcare operators or properties.

We conduct our operations through three reportable business segments: triple-net leased properties; senior living operations; and MOB 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.

Business Strategy

We aim to enhance shareholder value by delivering consistent, superior total returns through a strategy of:

(1) generating reliable and growing cash flows; (2) maintaining a balanced, diversified portfolio of high-quality assets; and (3) preserving our financial strength, flexibility and liquidity.

Generating Reliable and Growing Cash Flows

Generating reliable and growing cash flows from our seniors housing and healthcare assets enables us to pay regular cash dividends to stockholders and creates opportunities to increase shareholder value through profitable investments. The combination of steady contractual growth from our long-term triple-net leases, steady, reliable cash flows from our loan investments and stable cash flows from our MOBs with the higher growth potential inherent in our seniors housing operating communities drives our ability to generate sustainable, growing cash flows that are resilient to economic downturns.

Maintaining a Balanced, Diversified Portfolio

We believe that maintaining a balanced portfolio of high-quality assets diversified by investment type, geographic location, asset type, tenant/operator, revenue source and operating model diminishes the risk that any single factor or event could materially harm our business. Portfolio diversification also enhances the reliability of our cash flows by reducing our exposure to any individual tenant, operator or manager and making us less susceptible to single-state regulatory or reimbursement changes, regional climate events and local economic downturns.

Preserving Our Financial Strength, Flexibility and Liquidity

A strong, flexible balance sheet and excellent liquidity position us favorably to capitalize on strategic growth opportunities in the seniors housing and healthcare industries through acquisitions, investments, and development and redevelopment projects. We maintain our financial strength to pursue profitable investment opportunities by actively managing our leverage, improving our cost of capital and preserving our access to multiple sources of liquidity, including unsecured bank debt, mortgage financings and public debt and equity markets.

2014 Highlights and Other Recent Developments

In 2014, we paid an annual cash dividend on our common stock of \$2.965 per share.

During 2014, we made investments totaling approximately \$2.4 billion in seniors housing and healthcare assets, including 29 seniors housing communities located in Canada that we acquired from Holiday Retirement (the “Holiday Canada Acquisition”), three high-quality private hospitals located in the United Kingdom and a \$425.0 million secured mezzanine loan investment that has a blended annual interest rate of 8.1% and has contractual maturities ranging between 2016 and 2019.

In January 2015, we acquired publicly traded American Realty Capital Healthcare Trust, Inc. (“HCT”) in a stock and cash transaction (the “HCT Acquisition”), which added 152 properties (some of which are located on the same campus) to our portfolio. We funded the transaction through the issuance of approximately 28.4 million shares of our common stock, 1.1 million limited partnership units that are redeemable for shares of our common stock, cash and the assumption of debt.

In 2015, we made other investments totaling approximately \$320 million, including the acquisition of five triple-net leased properties in the United Kingdom and 12 skilled nursing facilities.

In April 2014, we issued and sold \$700 million aggregate principal amount of senior notes with a weighted average interest rate of 2.75% and a weighted average maturity of seven years.

In September 2014, we issued and sold CAD 650.0 million aggregate principal amount of senior notes, with an effective weighted average interest rate of 3.5% and a weighted average maturity of 6.9 years, on a private placement basis in Canada. We used the net proceeds from the sale to repay a portion of the CAD 791.0 million unsecured term loan we incurred to initially fund the Holiday Canada Acquisition.

In January 2015, we issued and sold \$900 million aggregate principal amount of senior notes, with a weighted average interest rate of 3.8% and a weighted average maturity of 16.7 years, and we issued and sold CAD 250.0 million aggregate principal amount of senior notes, with an interest rate of 3.3% and a maturity of seven years, on a private placement basis in Canada.

Under our “at-the-market” equity offering program, during 2014 and 2015 we issued and sold a total of approximately 7.1 million shares of our common stock at a weighted average price of \$75.18 per share for aggregate net proceeds (after sales agent commissions) of \$528.1 million.

During 2014, we sold 22 properties for \$118.2 million and received loans receivable repayments of \$55.9 million.

In 2015, we sold 17 properties for \$275.1 million, including \$5.5 million of lease termination fees.

By the end of 2014, we had re-leased to Kindred, transitioned to new operators or sold 107 of the 108 licensed healthcare assets whose lease terms with Kindred were scheduled to expire on September 30, 2014, and we expect to sell the remaining asset during 2015. See “Triple-Net Lease Expirations.”

Portfolio Summary

The following table summarizes our consolidated portfolio of properties and other investments (excluding properties included in discontinued operations during 2014 and properties classified as held for sale as of December 31, 2014) as of and for the year ended December 31, 2014:

Asset Type	# of Properties	# of Units/ Sq. Ft./Beds (2)	Real Estate Property Investments			Revenues (3)		Percent of Total Revenues	
			Real Estate Property Investment, at Cost	Percent of Total Real Estate Property Investments	Real Estate Property Investment Per Unit/Bed/Sq. Ft.	Revenue	Percent of Total Revenues		
(Dollars in thousands)									
Seniors housing communities	746	67,189	\$ 15,636,077	65.6	% \$ 232.7	\$ 2,029,003	66.6	%	
MOBs (4)	275	15,246,181	3,766,871	15.8	0.2	438,610	15.4		
Skilled nursing and other facilities	365	41,148	3,109,556	13.0	75.6	362,746	11.9		
Hospitals	47	3,820	498,441	2.1	130.5	127,975	4.2		
Total properties	1,433		23,010,945	96.5		2,958,334	98.1		
Loans and investments			829,756	3.5		55,169	1.8		
Other			—	—		4,267	0.1		
Total			\$ 23,840,701	100.0	%	\$ 3,017,770	100.0	%	

As of December 31, 2014, we also owned 20 seniors housing communities, 17 MOBs and 14 skilled nursing facilities through investments in unconsolidated entities, and we classified five seniors housing communities, nine skilled nursing facilities, and 36 MOBs as held for sale. Our consolidated properties were located in 46 states, the District of Columbia, seven Canadian provinces and the United Kingdom and, excluding MOBs, were operated or (1) managed by 94 unaffiliated healthcare operating companies, including the following publicly traded companies or their subsidiaries: Brookdale (161 properties) (excluding six properties owned through investments in unconsolidated entities); Kindred (83 properties); 21st Century Oncology Holdings, Inc. (12 properties); Capital Senior Living Corporation (12 properties); Spire Healthcare plc (three properties); and HealthSouth Corp. (two properties).

(2) Seniors housing communities are measured in units; MOBs are measured by square footage; and skilled nursing and other facilities and hospitals are measured by bed count.

(3) Total revenues exclude revenues attributable to properties included in discontinued operations during 2014 and properties classified as held for sale as of December 31, 2014.

As of December 31, 2014, we leased 30 of our consolidated MOBs pursuant to triple-net leases, Lillibridge or (4) PMBRES managed 246 of our consolidated MOBs and 29 of our consolidated MOBs were managed by nine unaffiliated managers. Through Lillibridge and PMBRES, we also provided management and leasing services for 75 MOBs owned by third parties as of December 31, 2014.

Seniors Housing and Healthcare Properties

As of December 31, 2014, we owned a total of 1,484 seniors housing and healthcare properties (excluding properties classified as held for sale), including through our investments in unconsolidated entities, as follows:

	Consolidated (100% interest)	Consolidated (<100% interest)	Unconsolidated (5-25% interest)	Total
Seniors housing communities	731	15	20	766
MOBs	247	28	17	292
Skilled nursing and other facilities	359	6	14	379
Hospitals	46	1	—	47
Total	1,383	50	51	1,484

Seniors Housing Communities

Our seniors housing communities include independent and assisted living communities, continuing care retirement communities and communities providing care for individuals with Alzheimer's disease and other forms of dementia or memory loss. These communities offer studio, one bedroom and two bedroom 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

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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, which allow residents certain conveniences and enable them 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. Charges for room, board and services are generally paid from private sources.

Medical Office Buildings

Typically, our MOBs are multi-tenant properties leased to several unrelated medical practices, although in many cases they may be associated with a large single specialty or multi-specialty group. Tenants include physicians, dentists, psychologists, therapists and other healthcare providers, who require space devoted to patient examination and treatment, diagnostic imaging, outpatient surgery and other outpatient services. MOBs are similar to commercial office buildings, although they require greater plumbing, electrical and mechanical systems to accommodate physicians' requirements such as sinks in every room, brighter lights and specialized medical equipment. As of December 31, 2014, we owned or managed for third parties approximately 21 million square feet of MOBs that are predominantly located on or near an acute care hospital campus ("on campus").

Skilled Nursing and Other Facilities

Our skilled nursing facilities provide rehabilitative, restorative, skilled nursing and medical treatment for patients and residents who do not require the high technology, care-intensive, high cost setting of an acute care or rehabilitation hospital. Treatment programs include physical, occupational, speech, respiratory and other therapies, including sub-acute clinical protocols such as wound care and intravenous drug treatment. Charges for these services are generally paid from a combination of government reimbursement and private sources.

Our personal care facilities provide specialized care, including supported living services, neurorehabilitation, neurobehavioral management and vocational programs, for persons with acquired or traumatic brain injury.

Hospitals

Substantially all of our hospitals are operated as long-term acute care hospitals, which have a Medicare average length of stay of greater than 25 days and 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 operators of these hospitals have 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 often depend on technology for continued life support, such as mechanical ventilators, total parenteral nutrition, respiration or cardiac monitors and dialysis machines, and, due to their severe medical conditions, generally are not clinically appropriate for admission to a nursing facility or rehabilitation hospital. All of our long-term acute care hospitals are freestanding facilities, and we do not own any "hospitals within hospitals." We also own two hospitals focused on providing children's care and five rehabilitation hospitals devoted to the rehabilitation of patients with various neurological, musculoskeletal, orthopedic and other medical conditions following stabilization of their acute medical issues.

Geographic Diversification of Properties

Our portfolio of seniors housing and healthcare properties is broadly diversified by geographic location throughout the United States, Canada and the United Kingdom, with properties in only one state (California) accounting for more than 10% of our total revenues and total net operating income ("NOI," which is defined as total revenues, excluding interest and other income, less property-level operating expenses and medical office building services costs) (in each case excluding amounts in discontinued operations) for the year ended December 31, 2014.

The following table shows our rental income and resident fees and services by geographic location for the year ended December 31, 2014:

Geographic Location	Rental Income and Resident Fees and Services (1) (Dollars in thousands)	Percent of Total Revenues (1)	
California	\$462,467	15.0	%
New York	295,783	9.6	
Texas	213,094	6.9	
Illinois	139,138	4.5	
Florida	124,374	4.0	
Massachusetts	114,076	3.7	
Pennsylvania	109,452	3.6	
North Carolina	90,186	2.9	
Colorado	89,555	2.9	
New Jersey	89,275	2.9	
Other (36 states and the District of Columbia)	1,119,438	36.5	
Total U.S	2,846,838	92.5	%
Canada (seven provinces)	126,321	4.1	
United Kingdom	13,787	0.5	
Total	\$2,986,946	97.1	%(2)

(1) This presentation excludes revenues from properties included in discontinued operations during 2014.

(2) The remainder of our total revenues is medical office building and other services revenue, income from loans and investments and interest and other income.

The following table shows our NOI by geographic location for the year ended December 31, 2014:

Geographic Location	NOI (1)	Percent of Total NOI (1)	
	(Dollars in thousands)		%
California	\$255,427	13.7	%
Texas	148,418	8.0	
New York	125,707	6.8	
Illinois	87,742	4.7	
Florida	83,693	4.5	
Massachusetts	73,847	4.0	
Indiana	62,642	3.4	
North Carolina	62,349	3.4	
Pennsylvania	55,125	3.0	
Ohio	52,317	2.8	
Other (36 states and the District of Columbia)	774,613	41.6	
Total U.S	1,781,880	95.9	%
Canada (seven provinces)	63,622	3.4	
United Kingdom	13,787	0.7	
Total	\$1,859,289	100.0	%

(1) This presentation excludes NOI from properties included in discontinued operations during 2014.

See “Note 20—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 regarding the geographic diversification of our portfolio.

Certificates of Need

Our skilled nursing facilities and hospitals are generally subject to federal, state and local licensure statutes and statutes that may require regulatory approval, in the form of a certificate of need (“CON”) issued by a governmental agency with jurisdiction over healthcare facilities, prior to the expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major equipment or introduction of new services. CON requirements, which are not uniform throughout the United States, may restrict our or our operators’ ability to expand our properties in certain circumstances.

The following table shows the percentages of our rental income (excluding amounts in discontinued operations) for the year ended December 31, 2014 that are derived by skilled nursing facilities and hospitals in states with and without CON requirements:

	Skilled Nursing Facilities	Hospitals	Total		
States with CON requirements	65.5	% 42.3	% 59.2	%	
States without CON requirements	34.5	57.7	40.8		
Total	100.0	% 100.0	% 100.0	%	

Loans and Investments

As of December 31, 2014, we had \$927.7 million of net loans receivable and investments relating to seniors housing and healthcare operators or properties. Our loans receivable and investments provide us with interest income, principal amortization and transaction fees and are typically secured by mortgage liens or leasehold mortgages on the underlying properties and corporate or personal guarantees by affiliates of the borrowing entity. In some cases, the loans are secured by a pledge of ownership interests in the entity or entities that own the related seniors housing or healthcare properties. From time to time, we also make investments in mezzanine loans, which are subordinated to senior secured loans held by other investors that

encumber the same real estate. See “Note 6—Loans Receivable and Investments” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Development and Redevelopment Projects

We are party to certain agreements that obligate us to develop seniors housing or healthcare properties funded through capital that we and, in certain circumstances, our joint venture partners provide. As of December 31, 2014, we had one new property under development pursuant to these agreements. In addition, from time to time, we engage in redevelopment projects with respect to our existing seniors housing communities to maximize the value, increase NOI, maintain a market-competitive position, achieve property stabilization or change the primary use of the property.

Segment Information

We evaluate our operating performance and allocate resources based on three reportable business segments: triple-net leased properties; senior living operations; and MOB operations. Non-segment assets, classified as “all other,” consist primarily of corporate assets, including cash, restricted cash, deferred financing costs, loans receivable and investments, and miscellaneous accounts receivable. For further information regarding our business segments, see “Note 20—Segment Information” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Significant Tenants, Operators and Managers

The following table summarizes certain information regarding our tenant, operator and manager concentration as of and for the year ended December 31, 2014 (excluding properties included in discontinued operations during 2014 and properties owned through investments in unconsolidated entities):

	Number of Properties Leased or Managed	Percent of Total Real Estate Investments (1)	Percent of Total Revenues	Percent of NOI
Senior living operations	270	36.0	% 50.6	% 27.8
Brookdale Senior Living (2)	160	10.2	5.5	9.2
Kindred	83	2.1	6.2	10.2

(1) Based on gross book value.

(2) Excludes six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement.

Triple-Net Leased Properties

Each of our leases with Brookdale Senior Living and Kindred is a triple-net lease that obligates the tenant to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and to comply with the terms of the mortgage financing documents, if any, affecting the properties. In addition, each of these leases has guaranty and cross-default provisions tied to other leases with the same tenant or its affiliates, as well as bundled lease renewals (as described in more detail below).

The properties we lease to Brookdale Senior Living and Kindred accounted for a significant portion of our triple-net leased properties segment revenues and NOI for the year ended December 31, 2014. If either Brookdale Senior Living or Kindred becomes unable or unwilling to satisfy its obligations to us or to renew its leases with us upon expiration of the terms thereof, our financial condition and results of operations could decline and our ability to service our indebtedness and to make distributions to our stockholders could be impaired. We cannot assure you that Brookdale Senior Living and Kindred will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by Brookdale Senior Living or Kindred to do so could have a material adverse effect on our business, financial condition, results of operations or liquidity and our ability to service our indebtedness and other obligations and to make distributions to our stockholders, as required for us to continue to qualify as a REIT (a “Material Adverse Effect”). We also cannot assure you that Brookdale Senior Living and Kindred will elect to renew their respective leases with us upon expiration of the leases or that we will be able to reposition any non-renewed properties on a timely basis or on the same or better economic terms, if at all. See “Risks Factors—Risks Arising from Our Business—Our leases with Brookdale Senior Living and Kindred account for a significant portion of our triple-net leased properties segment revenues and operating income; Any failure, inability or

unwillingness by Brookdale Senior Living or Kindred to satisfy its obligations under our agreements could have a Material Adverse Effect on us” included in Item 1A of this Annual Report on Form 10-K.

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Brookdale Senior Living Leases

As of December 31, 2014, after giving effect to Brookdale Senior Living's acquisition of Emeritus Senior Living on July 31, 2014, we leased 160 properties (excluding six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement) to Brookdale Senior Living pursuant to multiple lease agreements.

Pursuant to our lease agreements, Brookdale Senior Living is obligated to pay base rent, which escalates annually at a specified rate over the prior period base rent. As of December 31, 2014, the aggregate 2015 contractual cash rent due to us from Brookdale Senior Living, excluding variable interest that Brookdale Senior Living is obligated to pay as additional rent based on certain floating rate mortgage debt, was approximately \$186.8 million, and the current aggregate contractual base rent (computed in accordance with U.S. generally accepted accounting principles ("GAAP")) due to us from Brookdale Senior Living, excluding the variable interest, was approximately \$182.5 million (in each case, excluding six properties owned through investments in unconsolidated entities as of December 31, 2014). See "Note 3—Concentration of Credit Risk" and "Note 14—Commitments and Contingencies" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Kindred Leases

As of December 31, 2014, we leased 83 properties to Kindred pursuant to multiple lease agreements. The properties leased pursuant to our Kindred master leases are grouped into bundles, or "renewal groups," with each renewal group containing a varying number of geographically diversified properties. All properties within a single renewal group have the same current lease term of five to 12 years, and each renewal group is currently subject to one or more successive five-year renewal terms at Kindred's option, provided certain conditions are satisfied. Kindred's renewal option is "all or nothing" with respect to the properties contained in each renewal group.

The aggregate annual rent we receive under each Kindred master lease is referred to as "base rent." Base rent escalates annually at a specified rate over the prior period base rent, contingent, in the case of the remaining three original Kindred master leases, upon the satisfaction of specified facility revenue parameters. The annual rent escalator under two Kindred master leases is 2.7%, and the annual rent escalator under the other two Kindred master leases is based on year-over-year changes in CPI, subject to floors and caps.

As of December 31, 2014, we had re-leased to Kindred, transitioned to new operators or sold 107 of the 108 licensed healthcare assets whose lease terms were scheduled to expire on September 30, 2014. We expect to sell the remaining asset during 2015; however, the transaction remains subject to customary due diligence conditions, and we cannot assure you that we will be able to successfully complete the sale on a timely basis or at all.

In December 2014, we entered into favorable agreements with Kindred to transition the operations of nine licensed healthcare assets, make certain modifications to the master leases governing 34 leased assets, and reimburse us for certain deferred capital expenditures at skilled nursing facilities previously transferred to new operators. In January 2015, Kindred paid us \$37 million in connection with these agreements, which will be amortized over the remaining lease term for the 34 assets governed by the modified master leases. We own or have the rights to all licenses and CONs at the nine properties to be transitioned, and Kindred has extensive and detailed obligations to cooperate and ensure an orderly transition of the properties to another operator.

Senior Living Operations

As of December 31, 2014, Atria and Sunrise, collectively, provided comprehensive property management and accounting services with respect to 269 seniors housing communities included in our senior living operations reportable business segment, for which we pay annual management fees pursuant to long-term management agreements. Most of our management agreements with Atria have initial terms expiring either July 31, 2024 or December 31, 2027, with successive automatic ten-year renewal periods. The management fees payable to Atria under most of the Atria management agreements range from 4.5% to 5% of revenues generated by the applicable properties, and Atria can earn up to an additional 1% of revenues based on the achievement of specified performance targets. Most of our management agreements with Sunrise have terms ranging from 25 to 30 years (which commenced as early as 2004 and as recently as 2012). The management fees payable to Sunrise under the Sunrise management agreements range from 5% to 7% of revenues generated by the applicable properties. For the year ended December 31, 2014, the management fees (including incentive fees) we paid pursuant to our Sunrise management agreements were equal to 6.5% of revenues generated by the applicable properties. 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.

Because Atria and Sunrise manage our properties in exchange for the receipt of a management fee from us, we are not directly exposed to the credit risk of our managers in the same manner or to the same extent as our triple-net tenants. However,

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we rely on our managers' personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on our managers to set appropriate resident fees and to otherwise operate our seniors housing communities in compliance with the terms of our management agreements and all applicable laws and regulations. Although we have various rights as the property owner under our management agreements, including various rights to terminate and exercise remedies under those agreements as provided therein, Atria's or Sunrise's failure, inability or unwillingness to satisfy its respective obligations under those agreements, to efficiently and effectively manage our properties or to provide timely and accurate accounting information with respect thereto could have a Material Adverse Effect on us. In addition, significant changes in Atria's or Sunrise's senior management or equity ownership or any adverse developments in their businesses 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 Atria and Sunrise account for a significant portion of our revenues and operating income; Adverse developments in Atria's or Sunrise's business and affairs or financial condition could have a Material Adverse Effect on us" and "—We have rights to terminate our management agreements with Atria and Sunrise in whole or with respect to specific properties under certain circumstances, and we may be unable to replace Atria or Sunrise if our management agreements are terminated or not renewed" included in Item 1A of this Annual Report on Form 10-K.

Our 34% ownership interest in Atria entitles us to certain rights and minority protections, as well as the right to appoint two of five members on the Atria board of directors.

Competition

We generally compete for investments in seniors housing and healthcare assets with publicly traded, private and non-listed healthcare REITs, real estate partnerships, healthcare providers, healthcare lenders and other investors, including developers, banks, insurance companies, pension funds, government-sponsored entities and private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. Increased competition challenges our ability to identify and successfully capitalize on opportunities that meet our objectives, which is affected by, among other factors, the availability of suitable acquisition or investment targets, our ability to negotiate acceptable transaction terms and our access to and cost of capital. See "Risk Factors—Risks Arising from Our Business—Our pursuit of investments in and acquisitions of, or our development or redevelopment of, seniors housing and healthcare assets may be unsuccessful or fail to meet our expectations" included in Item 1A of this Annual Report on Form 10-K and "Note 10—Borrowing Arrangements" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our tenants, operators and managers also compete on a local and regional basis with other healthcare operating companies that provide comparable services. Seniors housing community, skilled nursing facility and hospital operators compete to attract and retain residents and patients to our properties based on scope and quality of care, reputation and financial condition, price, location and physical appearance of the properties, services offered, qualified personnel, physician referrals and family preferences. With respect to MOBs, we and our third-party managers compete to attract and retain tenants based on many of the same factors, in addition to quality of the affiliated health system, physician preferences and proximity to hospital campuses. The ability of our tenants, operators and managers to compete successfully could be affected by private, federal and state reimbursement programs and other laws and regulations. See "Risk Factors—Risks Arising from Our Business—Our tenants, operators and managers may be adversely affected by 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 and on us" included in Item 1A of this Annual Report on Form 10-K.

Employees

As of December 31, 2014, we had 479 employees, including 299 employees associated with our MOB operations reportable business segment, but excluding 1,261 employees at our Canadian seniors housing communities under the supervision and control of our independent managers. Although the applicable manager is responsible for hiring and maintaining the labor force at each of our Canadian seniors housing communities, we bear many of the costs and risks generally borne by employers, particularly with respect to those properties with unionized labor. None of our employees is subject to a collective bargaining agreement, other than those employees in the Canadian seniors housing communities managed by Sunrise or Atria. We believe that relations with our employees are positive. See "Risk

Factors—Risks Arising from Our Business—Our operating assets expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a Material Adverse Effect on us” included in Item 1A of this Annual Report on Form 10-K.

Insurance

We maintain or require in our lease, management and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our properties and their operations. We believe that the amount and scope of insurance coverage provided by our policies and the policies required to be maintained by our tenants, operators and managers are customary for similarly situated companies in our industry. Although we regularly monitor our tenants', operators' and managers' compliance with their respective insurance requirements, we cannot assure you that they will maintain the required insurance coverages, and any failure, inability or unwillingness by our tenants, operators and managers to do so could have a Material Adverse Effect on us. We also cannot assure you that we will continue to require the same levels of insurance coverage under our lease, management and other agreements, that such insurance coverage will be available at a reasonable cost in the future or that the policies maintained will fully cover all losses related to our properties upon the occurrence of a catastrophic event, nor can we assure you of the future financial viability of the insurers.

We maintain the property insurance for all of our senior living operations, as well as the general and professional liability insurance for our seniors housing communities and related operations managed by Atria. However, Sunrise maintains the general and professional liability insurance for our seniors housing communities and related operations that it manages in accordance with the terms of our management agreements. Under our management agreements with Sunrise, we may elect, on an annual basis, whether we or Sunrise will bear responsibility for maintaining the required insurance coverage for the applicable properties, but the costs of such insurance are facility expenses paid from the revenues of those properties, regardless of who maintains the insurance.

Through our MOB operations, we provide engineering, construction and architectural services in connection with new development projects, and any design, construction or systems failures related to the properties we develop could result in substantial injury or damage to our clients or third parties. Any such injury or damage claims may arise in the ordinary course and may be asserted with respect to ongoing or completed projects. Although we maintain liability insurance to protect us against these claims, if any claim results in a loss, we cannot assure you that our policy limits would be adequate to cover the loss in full. If we sustain losses in excess of our insurance coverage, we may be required to pay the difference and we could lose our investment in, or experience reduced profits and cash flows from, the affected MOB, which could have a Material Adverse Effect on us.

For various reasons, including to reduce and manage costs, many healthcare companies utilize different organizational and corporate structures coupled with self-insurance trusts or captive programs that may provide less coverage than a traditional insurance policy. As a result, companies that self-insure could incur large funded and unfunded general and professional liability expenses, which could have a material adverse effect on their liquidity, financial condition and results of operations. The implementation of a trust or captive by any of our tenants, operators or managers could adversely affect such person's ability to satisfy its obligations under, or otherwise comply with the terms of, its respective lease, management and other agreements with us, which could have a Material Adverse Effect on us. Likewise, if we decide to implement a captive or self-insurance program, any large funded and unfunded general and professional liability expenses that we incur could have a Material Adverse Effect on us.

Additional Information

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

We make available, free of charge, through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, our Guidelines on Governance, our Global Code of Ethics and Business Conduct (including waivers from and amendments to that document) and the charters for each of our Audit and Compliance, Nominating and Corporate Governance and Executive Compensation Committees are available on our website, and we will mail copies of the foregoing documents to stockholders, free of charge, upon request to our Corporate Secretary at Ventas, Inc., 353 North Clark Street, Suite 3300, Chicago, Illinois 60654.

GOVERNMENTAL REGULATION

Healthcare Regulation

Overview

For the year ended December 31, 2014, approximately 16% of our total revenues and 26% of our total NOI (in each case excluding amounts in discontinued operations) were attributable to skilled nursing and other facilities and hospitals in which our third-party tenants receive reimbursement for their services under governmental healthcare programs, such as Medicare and Medicaid. We are neither a participant in, nor a direct recipient of, any reimbursement under these programs with respect to those facilities.

Although the properties within our portfolio may be subject to varying levels of governmental scrutiny, 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. We also expect that 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) will intensify and continue. A significant expansion of applicable federal, state or local laws and regulations, existing or future healthcare reform measures, new interpretations of existing laws and regulations, changes in enforcement priorities, or significant limits on the scope of services reimbursed or reductions in reimbursement rates could have a material adverse effect on certain of our operators' liquidity, financial condition and results of operations and, in turn, their ability to satisfy their contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

Licensure, Certification and CONs

In general, the operators of our skilled nursing facilities must be licensed on an annual or biannual basis and certified annually through various regulatory agencies that determine compliance with federal, state and local laws to participate in the Medicare and Medicaid programs. Legal requirements pertaining to such licensure and certification relate to the quality of nursing care provided by the operator, qualifications of the operator's administrative personnel and nursing staff, adequacy of the physical plant and equipment and continuing compliance with laws and regulations governing the operation of skilled nursing facilities. The failure to maintain or renew any required license or regulatory approval or to correct serious deficiencies identified in a compliance survey could prevent an operator from continuing operations at a property, and a loss of licensure or certification could adversely affect a skilled nursing facility operator's ability to receive payments from the Medicare and Medicaid programs, which, in turn, could adversely affect its ability to satisfy its contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

The operators of our hospitals must meet the applicable conditions of participation established by the U.S. Department of Health and Human Services ("HHS") and comply with state and local laws and regulations in order to receive Medicare and Medicaid reimbursement. Such conditions relate to the type of hospital and its equipment, personnel and standard of medical care, and hospital operators must 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 operator's ability to receive payments from the Medicare and Medicaid programs, which, in turn, could adversely affect its ability to satisfy its contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

In addition, many of our skilled nursing facilities and hospitals are subject to state CON laws that require 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 also sometimes necessary for 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. 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 adverse effect on the operator's revenues and, in turn, its ability to make rental payments under and otherwise comply with the

terms of our leases. See “Risk Factors—Risks Arising from Our Business—If we must replace any of our tenants or operators, we might be unable to reposition the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a Material Adverse Effect on us” included in Part I, Item 1A of this Annual Report on Form 10-K.

Compared to skilled nursing facilities and hospitals, seniors housing communities are subject to relatively few, if any, federal regulations. Instead, to the extent they are regulated, such regulation consists primarily of state and local laws governing licensure, provision of services, staffing requirements and other operational matters, which 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 that believe more federal regulation of these properties is necessary, Congress thus far 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 states are expected to do the same in the future. Similarly, in Canada, seniors housing communities are currently generally subject to significantly less regulation than skilled nursing facilities and hospitals, and the regulation of such facilities is principally a matter of provincial and municipal jurisdiction. As a result, the regulatory regimes that apply to seniors housing communities vary depending on the province (and in certain circumstances, the city) in which a facility is located. Recently, certain Canadian provinces have taken steps to implement regulatory measures that could result in enhanced regulation for seniors housing communities in such provinces.

Fraud and Abuse Enforcement

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. These federal laws include, among others:

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 Referrals 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 by 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, such as punitive sanctions, damage assessments, monetary penalties, imprisonment, denial of Medicare and Medicaid payments, and 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 governmental healthcare 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 applicable laws and regulations. Increased funding through recent federal and state legislation and the creation of a series of new healthcare crimes by HIPAA have led to a significant expansion in the number and scope 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.

As federal and state budget pressures persist, administrative agencies may continue to escalate their investigation and enforcement efforts to eliminate waste and control fraud and abuse in governmental healthcare programs. A violation

of federal or state anti-fraud and abuse laws or 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 affect its ability to satisfy its contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

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Reimbursement

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, along with a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively, the “Affordable Care Act”). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that is expected to expand health care coverage to millions of currently uninsured people beginning in 2014. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursement rates for various healthcare providers, including long-term acute care hospitals and skilled nursing facilities, as well as certain other changes to Medicare payment methodologies.

The Affordable Care Act, among other things, reduced the inflationary market basket increase included in standard federal payment rates for long-term acute care hospitals by 25 basis points in fiscal year 2010, 50 basis points in fiscal year 2011, 10 basis points in fiscal years 2012 and 2013, 30 basis points in fiscal year 2014, 20 basis points in fiscal years 2015 and 2016, and 75 basis points in fiscal years 2017 through 2019. In addition, under the Affordable Care Act, long-term acute care hospitals and skilled nursing facilities are subject to a rate adjustment to the annual market basket increase to reflect improvements in productivity. In July 2012, after considering the constitutionality of various provisions of the Affordable Care Act, the U.S. Supreme Court upheld the so-called individual mandate and, while it found the provisions expanding Medicaid eligibility unconstitutional, determined that the issue was appropriately remedied by circumscribing the Secretary of Health and Human Services’ enforcement authority, thus leaving the Medicaid expansion intact.

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 existing or future healthcare reform legislation or changes in the administration or implementation of governmental and non-governmental healthcare reimbursement programs will not have a material adverse effect on our operators’ liquidity, financial condition or results of operations, or on their ability to satisfy their obligations to us, which, in turn, could have a Material Adverse Effect on us.

In August 2011, President Obama and the U.S. Congress enacted the Budget Control Act of 2011 (the “Budget Control Act”) to increase the federal government’s borrowing authority (the so-called “debt ceiling”) and reduce the federal government’s projected operating deficit. Under the Budget Control Act, a 2% reduction in Medicare payments to long-term acute care hospitals and skilled nursing facilities (part of \$1.2 trillion in automatic spending cuts commonly referred to as “sequestration”) was expected to take effect on February 1, 2013. Although delayed by the American Taxpayer Relief Act of 2012, this 2% reduction became effective on April 1, 2013. These measures or any future federal legislation relating to the debt ceiling or deficit reduction could have a material adverse effect on our operators’ liquidity, financial condition or results of operations and their ability to satisfy their obligations to us, which, in turn, could have a Material Adverse Effect on us.

In October 2014, President Obama signed into law The Improving Medicare Post-Acute Transformation Act of 2014 (the “IMPACT Act”), which standardizes patient assessments among post-acute care providers (home health providers, skilled nursing facilities, long-term care hospitals and rehabilitation providers) and is designed to give Congress the data needed for major payment reforms, such as site-neutral and bundled payments, in the future. We have not yet determined the effect, if any, that the IMPACT Act may have on our operators or on us.

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”) for cost reporting periods commencing on or after October 1, 2002. 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 coincides with annual updates to the LTC-DRG classification system and corresponds 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 for a period of three years, all of which

were extended for two additional years by the Affordable Care Act:

- Prevention of the application of the “25-percent rule,” which limits payments from referring co-located hospitals, to freestanding and grandfathered long-term acute care hospitals;

- Modification of the application of the 25-percent rule to certain urban and rural long-term acute care “hospitals-within-hospitals” and “satellite” facilities;

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Prevention of the application of the “very short stay outlier” policy; and
Prevention of any one-time adjustments to correct estimates used in implementing LTAC PPS.

Lastly, the Medicare Extension Act introduced a moratorium on new long-term acute care hospitals and beds for three years, which was subsequently extended by the Affordable Care Act and expired on December 29, 2012. In its May 2008 final rule, CMS 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, as mandated by the Medicare Extension Act, and set forth policies on implementing the moratorium on new long-term acute care hospitals and beds imposed by the Medicare Extension Act.

In its August 2009 final rule, CMS finalized policies to implement changes required by Section 124 of the Medicare Improvements for Patients & Providers Act of 2008 (Pub. L. No. 110-275), continuing reforms intended to improve the accuracy of Medicare payments for inpatient acute care through the severity-adjusted diagnosis-related group (MS-LTC-DRG) classification system for long-term acute care hospitals.

In its August 2012 final rule, CMS delayed the extension of the 25-percent rule to freestanding and grandfathered long-term acute care hospitals for another year until December 29, 2013.

On December 26, 2013, President Obama signed into law the Pathway for SGR Reform Act of 2013 (the “Pathway for SGR Reform Act”), which prevented a scheduled cut to the Medicare Part B physician fee schedules from taking effect on January 1, 2014. Also known as the “doc fix,” this reprieve from the Medicare payment cut was effective for a period of 90 days (until March 31, 2014), while Congress worked to find a permanent solution, and included several provisions impacting payments to long-term acute care hospitals. Among other things, the Pathway for SGR Reform Act established new patient criteria for long-term acute care hospitals to receive reimbursement for services to Medicare beneficiaries at the LTAC PPS rate, rather than the acute inpatient prospective payment system (“IPPS”) rate, and required CMS to establish a process for a long-term acute care hospital subject to the IPPS payment rate to re-qualify for payment under LTAC PPS. The Pathway for SGR Reform Act also delayed full implementation of the 25-percent rule for three years, through fiscal year 2017, and extended the current moratorium on establishing or increasing long-term acute care beds (with certain exceptions) through September 30, 2017.

On August 4, 2014, CMS released its final rule updating LTAC PPS for the 2015 fiscal year (October 1, 2014 through September 30, 2015). Under the final rule, the LTAC PPS standard federal payment rate will increase by 2.2% in fiscal year 2015, reflecting a 2.9% increase in the market basket index, less both a 0.5% productivity adjustment and a 0.2% adjustment mandated by the Affordable Care Act. After taking into account the last year of the three-year phase in of the permanent one-time budget neutrality adjustment (-1.3%), the LTAC PPS standard federal payment rate in fiscal year 2015 will increase under the final rule by slightly more than 1% over the rate for fiscal year 2014. In addition, the final rule provides for: the retroactive reinstatement and extension, for an additional four years, of the moratorium on the full implementation of the 25-percent rule to freestanding and grandfathered long-term acute care hospitals established under the Medicare, Medicaid and SCHIP Extension Act of 2007 and amended by subsequent legislation; and implementation of the moratorium on the establishment of new long-term acute care hospitals and satellite facilities and the moratorium on bed increases in long-term acute care hospitals under the Pathway for SGR Reform Act of 2013, as amended by the Protecting Access to Medicare Act of 2014, effective for the period beginning April 1, 2014 and ending September 30, 2017. CMS estimates that net payments to long-term acute care hospitals under the final rule will increase by approximately \$62 million, or 1.1%, in fiscal year 2015 due to the update to the standard federal payment rate, changes to the area wage adjustment and expected changes to short-stay and high-cost outlier payments. However, after taking into account the reinstatement of the moratorium on the implementation of the 25-percent rule, the implementation of the moratoria on the development of new long-term acute care hospitals and satellite facilities and additional beds, and the impact of certain other policy changes, CMS estimates that net payments to long-term acute care hospitals under the final rule will increase by approximately \$178 million in fiscal year 2015 relative to fiscal year 2014.

We regularly assess the financial implications of CMS’s rules and other federal legislation on the operators of our long-term acute care hospitals, but we cannot assure you that 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 and on us” 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,

which are made on a per diem basis for each resident, 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 CMS refined the resource utilization groups (“RUGs”) used to determine the daily payment for beneficiaries in skilled nursing facilities in the 2006 fiscal year. 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. Although extended multiple times by Congress, relief from the BBA therapy caps expired on December 31, 2009.

Under its final rule updating LTC-DRGs for the 2007 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 and set forth 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.

Under its final rule updating SNF PPS for the 2010 fiscal year, CMS recalibrated the case-mix indexes for RUGs used to determine the daily payment for beneficiaries in skilled nursing facilities and implemented the RUG-IV classification model for skilled nursing facilities for the 2011 fiscal year. However, the Affordable Care Act delayed the implementation of RUG-IV for one year, and CMS subsequently modified the implementation schedule in its notice updating SNF PPS for the 2011 fiscal year.

In its final rule updating the Medicare physician fee schedule for the 2012 calendar year, CMS set a \$1,880 cap on physical therapy and speech-language pathology services and a separate \$1,880 cap on occupational therapy services, including therapy provided in skilled nursing facilities, both without an exceptions process. However, in January 2013, the Middle Class Tax Relief and Job Creation Act of 2012 (Pub. L. No. 112-96) was enacted to lift the caps on therapy services and require a manual review process for those exceptions for which the beneficiary therapy services exceed \$3,700 in a year. The Pathway for SGR Reform Act maintained the status quo for outpatient therapy services by extending the exceptions process for outpatient therapy caps through March 31, 2014.

On August 4, 2014, CMS released its final rule updating SNF PPS for the 2015 fiscal year (October 1, 2014 through September 30, 2015). Under the final rule, the SNF PPS standard federal payment rate will increase by 2.0% in fiscal year 2015, reflecting a 2.5% increase in the market basket index, less a 0.5% productivity adjustment mandated by the Affordable Care Act. CMS estimates that net payments to skilled nursing facilities as a result of the final rule will increase by approximately \$750 million in fiscal year 2015.

We regularly assess the financial implications of CMS’s rules and other federal legislation on the operators of our skilled nursing facilities, but we cannot assure you that current rules or future updates to SNF PPS, therapy services or Medicare reimbursement for skilled nursing facilities 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 and on us” included in Item 1A of this Annual Report on Form 10-K.

Medicaid Reimbursement; Skilled Nursing Facilities

Approximately two-thirds of all skilled nursing facility 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 and in an effort to address actual or potential budget shortfalls, many state legislatures have enacted or proposed reductions to 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 fiscal year were also anticipated to reduce Medicaid payments to skilled nursing facility operators, and 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 that would qualify for federal financial participation under Medicaid by 0.5%, from 6% to 5.5%, until October 1, 2011. However, it was anticipated that this reduction would have a negligible effect, impacting only those states with taxes in excess of 5.5%.

The American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) (the “Recovery Act”), in contrast, temporarily increased federal payments to state Medicaid programs by \$86.6 billion through, among other things, a 6.2% increase in the federal share of Medicaid expenditures across the board, with additional funds available depending on a state’s federal medical assistance percentage and unemployment rate. Though the Medicaid federal assistance payments were originally expected to expire on December 31, 2010, the President’s fiscal year 2011 budget extended those payments through June 30, 2011. The Recovery Act also 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.

We expect more states to adopt significant Medicaid rate freezes or cuts or other program changes as their reimbursement methodologies continue to evolve. 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 that any such actions would have on our skilled nursing facility operators, nor can we assure you that payments under Medicaid are now or in the future will be sufficient to fully reimburse those operators for the cost of providing skilled nursing services. Severe and widespread Medicaid rate cuts or freezes could materially adversely affect our skilled nursing facility operators, which, in turn, could adversely affect their ability to satisfy their contractual obligations, including making rental payments under and otherwise complying with the terms of our leases.

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, and, in certain cases, the costs of complying with these laws and regulations and the penalties for non-compliance can be substantial. With respect to our properties that are operated or managed by third parties, 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 an actual or threatened release of a regulated material and any other affected properties, regardless of whether we knew of or caused the release. Such costs typically are not limited by law or regulation and could exceed the property’s value. In addition, we may be liable for certain other costs, such as governmental fines and injuries to persons, property or natural resources, as a result of any such actual or threatened release. See “Risk Factors—Risks Arising from Our Business—We could incur substantial liabilities and costs if any of our properties are found to be contaminated with hazardous substances or we become involved in any environmental disputes” included in Item 1A of this Annual Report on Form 10-K.

Under the terms of our lease, management and other agreements, we generally have a right to indemnification by the tenants, operators and managers of our properties for any contamination caused by them. However, we cannot assure you that our tenants, operators and managers will have the financial capability or willingness to satisfy their respective indemnification obligations to us, and any failure, inability or unwillingness to do so may require us to satisfy the underlying environmental claims. See “Risk Factors—Risks Arising from Our Business—Our leases with Brookdale Senior Living and Kindred generate a meaningful portion of our revenues and operating income; Any failure, inability or unwillingness by Brookdale Senior Living or Kindred to satisfy its obligations under our agreements could have a Material Adverse Effect on us” included in Item 1A of this Annual Report on Form 10-K.

In general, we have also agreed to indemnify our tenants and 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 applicable lease commencement date. With respect to our senior living operating portfolio, we have agreed to indemnify our managers against any environmental claims (including penalties and clean-up costs) resulting from any condition on those properties, unless the manager caused or contributed to that condition.

We did not make any material capital expenditures in connection with environmental, health, and safety laws, ordinances and regulations in 2014 and do not expect that we will be required to make any such material capital expenditures during 2015.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you as a holder of our stock. It is not tax advice, nor does it purport to address all aspects of U.S. federal income taxation that may be important to particular stockholders in light of their personal circumstances or to certain types of stockholders, 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.

individuals and entities (except to the extent discussed below under “—Special Tax Considerations for Non-U.S. Stockholders”), that may be subject to special rules.

The statements in this section are based on the Internal Revenue Code of 1986, as amended (the “Code”), U.S. Treasury Regulations, Internal Revenue Service (“IRS”) rulings, and judicial decisions now in effect, all of which are subject to change or different interpretation, possibly with retroactive effect. The laws governing the U.S. federal income tax treatment of REITs and their stockholders are highly technical and complex, and this discussion is qualified in its entirety by the authorities listed above. We cannot assure you that new laws, interpretations of law or court decisions will not cause any statement herein to be inaccurate.

Federal Income Taxation of Ventas

We elected REIT status beginning with the year ended December 31, 1999. We believe that we have satisfied the requirements to qualify as a REIT for federal income tax purposes for all tax years starting in 1999, and we intend to continue to do so. By qualifying for taxation as a REIT, we generally are not subject to federal income tax on net income that we currently distribute to stockholders, which substantially eliminates the “double taxation” (i.e., taxation at both the corporate and stockholder levels) that results from investment in a C corporation (i.e., a corporation generally subject to full corporate-level tax).

Notwithstanding such qualification, we are subject to federal income tax on any undistributed taxable income, including undistributed net capital gains, at regular corporate rates. In addition, we are 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 net income from the sale or other disposition of “foreclosure property” (as described below) held primarily for sale to customers in the ordinary course of business or certain other non-qualifying income from foreclosure property, we are subject to tax at the highest corporate rate on that income. See “—Requirements for Qualification as a REIT—Foreclosure Property.” 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 is subject to a 100% tax. We also may be subject to “Built-in Gains Tax” on any appreciated asset that we own or acquire that was previously owned by a C corporation. If we dispose of any such asset and recognize gain on the disposition during the ten-year period immediately after the asset was owned by a C corporation (either prior to our REIT election, or through stock acquisition or merger), then we generally are subject to regular corporate income tax on the gain equal to the lesser of the recognized gain at the time of disposition or the built-in gain in that asset as of the date it became a REIT asset. If we fail to satisfy either of the gross income tests for qualification as a REIT (as discussed below), but maintain such qualification under the relief provisions of the Code, we will be subject to a 100% tax on the gross income attributable to the amount by which we failed the applicable test, multiplied by a fraction intended to reflect our profitability. In addition, if we violate one or more of the REIT asset tests (as discussed below), we may avoid a loss of our REIT status if we qualify under certain relief provisions and, among other things, pay 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 any requirement for REIT qualification, other than the gross income or assets tests mentioned above, but maintain such qualification by meeting certain other requirements, we may be subject to a \$50,000 penalty for each failure. Finally, we will incur a 100% excise tax on the income derived from certain transactions with a taxable REIT subsidiary (including rental income derived from leasing properties to 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 our stockholders.

Organizational Requirements

The Code defines a REIT as a corporation, trust or association: (i) that is managed by one or more directors or trustees; (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest; (iii) that would be taxable as a domestic corporation but for Sections 856 through 859 of the Code;

(iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable

year (the “100 Shareholder Rule”); (vi) not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of each taxable year (the “5/50 Rule”); (vii) that makes an election to be a REIT (or has made such election for a prior taxable year) and satisfies all relevant filing and other administrative requirements established by the 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 cannot assure you, that we have satisfied and will continue to satisfy the organizational requirements for qualification as a REIT. Although our certificate of incorporation contains certain limits on the ownership of our stock that are intended to prevent us from failing the 5/50 Rule or the 100 Shareholder Rule, we cannot assure you as to the effectiveness of those limits.

To qualify as a REIT, a corporation also 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 or that are from acquired non-REIT corporations. We believe that we have not had any accumulated earnings and profits that are attributable to non-REIT periods or from acquired corporations that were not REITs, although the IRS is entitled to challenge that determination.

Gross Income Tests

We must satisfy two annual gross income requirements to qualify as a REIT:

At least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property (including pledges of equity interest in certain entities holding real property and also including “rents from real property” (as defined in the Code)) and, in certain circumstances, interest on certain types of temporary investment income; and

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 cannot assure you, that we have been and will continue to be in compliance with these gross income tests. If we fail to satisfy one or both tests for any taxable year, we nevertheless may qualify as a REIT for that year if we qualify under certain relief provisions of the Code, in which case we would be subject to a 100% tax on the gross income attributable to the amount by which we failed the applicable test. If we fail to satisfy one or both tests and do not qualify under the relief provisions for any taxable year, we will not qualify as a REIT for that year, which 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: 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 interests 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 (i.e., having a 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”); and

Of the investments not meeting the requirements of the 75% asset test, the value of any single issuer’s debt and equity securities that we own (other than our equity interests in any entity classified as a partnership for federal income tax purposes, the stock or debt of a taxable REIT subsidiary or the stock or debt of a qualified REIT subsidiary or other disregarded entity 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 single issuer’s outstanding voting securities (the “10% voting securities test”) or more than 10% of the value of any single issuer’s outstanding securities (the “10% value test”), subject to limited “safe harbor” exceptions.

In addition, no more than 25% of the value of our total assets can be represented by securities of taxable REIT subsidiaries (the “25% TRS test”).

We believe, but cannot assure you, that we have been and will continue to be in compliance with the asset tests described above. If we fail to satisfy one or more asset tests at the end of any quarter, we nevertheless may continue to qualify as a REIT if we satisfied all of the asset tests at the close of the preceding calendar quarter and the discrepancy between the value of our assets and the asset test requirements is due to changes in the market values and not caused

in any part by our acquisition of non-qualifying assets.

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Furthermore, if we fail to satisfy any of the asset tests at the end of any calendar quarter without curing that failure within 30 days after quarter end, we would fail to qualify as a REIT unless we qualified under certain relief provisions enacted as part of the American Jobs Creation Act of 2004. Under one relief provision, we would continue to qualify as a REIT if our failure to satisfy the 5% asset test, the 10% voting securities test or the 10% value test is due to our 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 disposed of those assets (or otherwise met such asset tests) within six months after the end of the quarter in which the failure was identified. If we fail to satisfy any of the asset tests for a particular quarter but do not qualify under the relief provision described in the preceding sentence, then we would be deemed to have satisfied the relevant asset test if: (i) following identification of the failure, we filed a schedule containing a description of each asset that caused the failure; (ii) the failure was due to reasonable cause and not willful neglect; (iii) we disposed of the non-qualifying asset (or otherwise met the relevant asset test) within six months after the end of the quarter in which the failure was identified; and (iv) we paid 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 disposed of the asset (or otherwise cured the asset test failure). We cannot predict whether in all circumstances we would be entitled to the benefit of these relief provisions, and if we fail to satisfy any of the asset tests and do not qualify for the relief provisions, we will 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, in such a case, we would be subject to a corporate tax on the net non-qualifying income from “foreclosure property,” and the after-tax amount would increase the dividends we would be required to distribute to stockholders. See “—Annual Distribution Requirements”. The corporate tax imposed on non-qualifying income would not apply to income that qualifies as “good REIT income,” such as a lease of qualified healthcare property to a taxable REIT subsidiary, where the taxable REIT subsidiary engages an “eligible independent contractor” to manage and operate the property. Foreclosure property treatment will end on the first day on which we enter into a lease of the applicable property that will give rise to income that does not constitute “good REIT income” under Section 856(c)(3) of the Code, but will not end if the lease will give rise only to good REIT income. Foreclosure property treatment also will end if any construction takes place on the property (other than completion of a building or other improvement that was more than 10% complete before default became imminent). Foreclosure property treatment (other than for qualified healthcare property) 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

A taxable REIT subsidiary, or “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 directly and can perform tenant services (excluding the direct or indirect operation or management of a lodging or healthcare facility) that would otherwise disqualify the REIT’s rental income under the gross income tests. Notwithstanding general restrictions on related party rent, a REIT can lease healthcare properties to a TRS if the TRS does not manage or operate the properties and instead engages an eligible independent contractor to manage them. We are permitted to own up to 100% of a TRS, subject to the 25% TRS test, but the Code imposes certain limits on the ability of the TRS to deduct interest payments made to us. In addition, we are subject to a 100% penalty tax on any excess payments received by us or any 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 the sum of (i) 90% of our “REIT taxable income” (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income (after tax), if any, from foreclosure property, minus the sum of certain items of non-cash income. These dividends must be paid in the taxable year to which they relate, but may be paid in the following taxable year if (i) they are declared in October, November

or December, payable to stockholders of record on a specified date in one of those months and actually paid during January of such following year or (ii) they are declared before we timely file our tax return for such year and paid on or before the first regular dividend payment after such declaration, and we elect on our federal income tax return for the prior year to have a specified amount of the subsequent dividend treated as paid in the prior year. To the extent we do not distribute all of our net capital gain or 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 our net operating loss or capital loss carryforwards. If we pay any

Built-in Gains Taxes, those taxes will be deductible in computing REIT taxable income. Moreover, if we fail to distribute during 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 year) at least the sum of 85% of our REIT ordinary income for such year, 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 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 cannot assure you, that we have satisfied the annual distribution requirements for the year of our initial REIT election and each subsequent year through the year ended December 31, 2014. Although we intend to satisfy the annual distribution requirements to continue to qualify as a REIT for the year ending December 31, 2015 and thereafter, economic, market, legal, tax or other considerations could limit our ability to meet those requirements. We have net operating loss carryforwards that we may use to reduce our annual distribution requirements. See “Note 13—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 by violating a gross income or asset test for which relief is available under the circumstances described above, we would retain our REIT qualification if the failure is due to reasonable cause and not willful neglect and if we pay a penalty of \$50,000 for each such failure. We cannot 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 in any taxable year (e.g., due to a failure to meet the REIT qualification tests without qualifying for any applicable relief provisions), 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), and we would not be required to make distributions to stockholders, nor would we be entitled to deduct any such distributions. All distributions to stockholders (to the extent of our current and accumulated earnings and profits) would be taxable as ordinary income, except to the extent such dividends are eligible for the qualified dividends rate generally available to non-corporate holders, and, subject to certain limitations, corporate stockholders would 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. We cannot predict whether we would be entitled to such relief.

Federal Income Taxation of U.S. Stockholders

As used in this discussion, the term “U.S. Stockholder” refers to any beneficial owner of our stock that is, for U.S. federal income tax purposes, an individual who is a citizen or resident of the United States, a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which must be included in gross income for U.S. federal income tax purposes regardless of its source, or a trust if (i) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have authority to control all substantial decisions of the trust or (ii) the trust has elected under applicable U.S. Treasury Regulations to retain its pre-August 20, 1996 classification as a U.S. person. If an entity treated as a partnership for U.S. federal income tax purposes holds our stock, the tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partners in partnerships holding our stock should consult their tax advisors. This section assumes the U.S. Stockholder holds our stock as a capital asset (that is, for investment).

Provided 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 taxable to 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 long-term 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 our stock. Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. Stockholder to the extent they do not exceed the U.S. Stockholder’s adjusted basis of our stock (determined on a share-by-share basis),

but rather will reduce the U.S. Stockholder's adjusted basis of our stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the U.S. Stockholder's adjusted basis of our stock, such distributions will be included in income as capital gains and taxable at a rate that will depend on the U.S. Stockholder's holding period for our stock. Any distribution declared by us and payable to a stockholder of record on a specified date in October, November or December of any year will be treated as both paid by us and received by the stockholder on December 31 of that year, provided that we actually pay the distribution 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. If we so elect, our U.S. 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 U.S. 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 U.S. Stockholder. In addition, the U.S. Stockholder's tax basis of our stock 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.

U.S. Stockholders may not include in their individual income tax returns any of our net operating losses or net capital losses. Instead, we may carry over those losses for potential offset against our future income, subject to certain limitations. Taxable distributions from us and gain from the disposition of our stock will not be treated as passive activity income, and, therefore, U.S. Stockholders generally will not be able to apply any "passive activity losses" (such as losses from certain types of limited partnerships in which the U.S. 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 that a portion of the distribution is designated as a capital gain dividend, we will notify stockholders as to the portion that is a "20% rate gain distribution" and the portion that is an unrecaptured Section 1250 distribution. A 20% rate gain distribution is a capital gain distribution to U.S. Stockholders that are individuals, estates or trusts that is taxable at a maximum rate of 20%. An unrecaptured Section 1250 gain distribution is taxable to U.S. Stockholders that are individuals, estates or trusts at a maximum rate of 25%.

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

In general, a U.S. Stockholder must treat any gain or loss realized upon a taxable disposition of our stock as long-term capital gain or loss if the U.S. Stockholder has held the stock for more than one year, and otherwise as short-term capital gain or loss. However, a U.S. Stockholder must treat any loss upon a sale or exchange of shares of our 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 stock may be disallowed if the U.S. Stockholder purchases other shares of our stock (or certain options to acquire our stock) within 30 days before or after the disposition.

Medicare Tax on Investment Income

Certain U.S. Stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds are required to pay a 3.8% Medicare tax on dividends and certain other investment income, including capital gains from the sale or other disposition of our stock.

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 U.S. federal income taxation but are subject to taxation on their unrelated business taxable income ("UBTI"). While many investments in real estate generate UBTI, a ruling published by the IRS states 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 stock with debt, a portion of its income from us will constitute UBTI pursuant to the "debt-financed property" rules. 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 require them to characterize distributions from us as UBTI, and 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

As used herein, the term “Non-U.S. Stockholder” refers to any beneficial owner of our stock that is, for U.S. federal income tax purposes, a nonresident alien individual, foreign corporation, foreign estate or foreign trust, but 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, is subject to U.S. federal income tax with respect to its investment in our stock in the same manner as a U.S. Stockholder (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” on its

effectively connected earnings and profits (subject to adjustments) 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) are 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 are 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 are not taxable to a Non-U.S. Stockholder to the extent that such distributions do not exceed the Non-U.S. Stockholder's adjusted basis of our stock (determined on a share-by-share basis), but rather reduce the Non-U.S. Stockholder's adjusted basis of our stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the Non-U.S. Stockholder's adjusted basis of our stock, 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 our stock, as described below.

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

For any year in which we qualify as a REIT, distributions to a Non-U.S. Stockholder that owns more than 5% of our shares 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 the Non-U.S. Stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") 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) and would be required to file a U.S. federal income tax return. Distributions subject to FIRPTA also may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits (subject to adjustments) if the recipient is a corporate Non-U.S. Stockholder not entitled to treaty relief or exemption. Under FIRPTA, we are required to withhold 35% (which is higher than the maximum rate on long-term capital gains of non-corporate persons) 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.

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 a distribution, any capital gain distributions, to the extent attributable to sales or exchanges by us of U.S. real property interests, will not be considered to be effectively connected with a U.S. business, and the Non-U.S. Stockholder would not be required to file a U.S. federal income tax return solely as a result of receiving such a distribution. In that case, the distribution will be treated as an ordinary dividend to that Non-U.S. Stockholder and taxed as an ordinary dividend that is not a capital gain distribution (and subject to withholding), as described above. In addition, the branch profits tax will not apply to the distribution. Any capital gain distribution, to the extent not attributable to sales or exchanges by us of U.S. real property interests, generally will not be subject to U.S. federal income taxation (regardless of the amount of our shares owned by a Non-U.S. Stockholder). For so long as our 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 (net of certain sources within the U.S., if any) 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 stock (as outstanding from time to time).

In general, the sale or other taxable disposition of our 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. Because our common stock is publicly traded, we believe, but cannot assure you, that we currently qualify as a domestically controlled REIT, nor can we assure you that we will so qualify at any time in the future.

If we do not constitute a domestically controlled REIT, a Five Percent Non-U.S. Stockholder generally will be taxed in the same manner as a U.S. Stockholder with respect to gain on the sale of our stock (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). A 30% withholding tax will currently be imposed on dividends paid on our stock and will be imposed on gross proceeds from a sale or redemption of our stock paid after December 31, 2016 to (i) foreign financial institutions including non-U.S. investment funds, unless they agree to collect and disclose to the IRS information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, foreign financial institutions will need to (i) enter into agreements with the IRS that state that they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information as to their account holders, or (ii) in the event that an applicable intergovernmental agreement and implementing legislation are adopted, provide local revenue authorities with similar account holder information or otherwise comply with the terms of the intergovernmental agreement and implementing legislation. Other foreign entities will need to either provide the name, address, and taxpayer identification number of each substantial U.S. owner or certifications of no substantial U.S. ownership unless certain exceptions apply or agree to provide certain information to other revenue authorities for transmittal to the IRS.

Information Reporting Requirements and Backup Withholding

Information returns may be filed with the IRS and backup withholding (at a rate of 28%) may be collected in connection with distributions paid or required to be treated as paid during each calendar year and payments of the proceeds of a sale or other disposition of our stock by a stockholder, unless such stockholder is a corporation, non-U.S. person or comes within certain other exempt categories and, when required, demonstrates this fact or 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.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be offset by the amount of tax withheld. If backup withholding results in an overpayment of U.S. federal income taxes, a refund or credit may be obtained from the IRS, provided the required information is furnished timely thereto.

As a general matter, backup withholding and information reporting will not apply to a payment of the proceeds of a sale of our 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 stock by a foreign office of a broker that is a U.S. person, a foreign partnership that engaged during certain periods in 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, any foreign person 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 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 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 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. State and local tax treatment may differ from the U.S. 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 federal, foreign and other tax laws, in connection with an investment in

our stock.

Possible Legislative or Other Actions Affecting Tax Consequences

You should recognize that future legislative, judicial and administrative actions or decisions, which may be retroactive in effect, could adversely affect our federal income tax treatment or the tax consequences of an investment in shares of our stock. The rules dealing with U.S. federal income taxation are continually 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

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existing, regulations and revised interpretations of established concepts. 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 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, or any other risks and uncertainties that are not addressed below or that we have not yet identified, actually occur, we could be materially adversely affected and 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

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

As of December 31, 2014, Atria and Sunrise, collectively, managed 269 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 NOI. Although we have various rights as the property owner under our management agreements, we rely on Atria's and Sunrise's personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on Atria and Sunrise to set appropriate resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our seniors housing communities in compliance with the terms of our management agreements and all applicable laws and regulations. For example, we depend on Atria's and 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 Atria or Sunrise to enhance its pay and benefits package to compete effectively for such personnel, but it may not be able to offset these added costs by increasing the rates charged to residents. Any increase in labor costs and other property operating expenses, any failure by Atria or Sunrise to attract and retain qualified personnel, or significant changes in Atria's or Sunrise's senior management or equity ownership could adversely affect the income we receive from our seniors housing communities and have a Material Adverse Effect on us.

Because Atria and Sunrise manage our properties in exchange for the receipt of a management fee from us, we are not directly exposed to the credit risk of our managers in the same manner or to the same extent as our triple-net tenants. However, any adverse developments in Atria's or Sunrise's business and affairs or financial condition could impair its ability to manage our properties efficiently and effectively and could have a Material Adverse Effect on us. If Atria or Sunrise experiences any significant financial, legal, accounting or regulatory difficulties due to a weak economy or otherwise, such difficulties could result in, among other adverse events, acceleration of its indebtedness, impairment of its continued access to capital, the enforcement of default remedies by its counterparties, or the commencement of insolvency proceedings by or against it under the U.S. Bankruptcy Code, any one or a combination of which indirectly could have a Material Adverse Effect on us.

Our leases with Brookdale Senior Living and Kindred account for a significant portion of our triple-net leased properties segment revenues and operating income; Any failure, inability or unwillingness by Brookdale Senior Living or Kindred to satisfy its obligations under our agreements could have a Material Adverse Effect on us.

The properties we lease to Brookdale Senior Living and Kindred account for a significant portion of our triple-net leased properties segment revenues and NOI, and because our leases with Brookdale Senior Living and the Kindred Master Leases are triple-net leases, we depend on Brookdale Senior Living and Kindred to pay all insurance, taxes, utilities and maintenance and repair expenses in connection with the leased properties. We cannot assure you that Brookdale Senior Living and Kindred will have sufficient assets, income and access to financing to enable them to satisfy their respective obligations to us, and any failure, inability or unwillingness by Brookdale Senior Living or

Kindred to do so could have a Material Adverse Effect on us. In addition, any failure by Brookdale Senior Living or Kindred to effectively conduct its operations or to maintain and improve our properties could adversely affect its business reputation and its ability to attract and retain patients and residents in our

properties, which could have a Material Adverse Effect on us. Brookdale Senior Living and Kindred have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, and we cannot assure you that Brookdale Senior Living and Kindred will have sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their respective indemnification obligations.

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 may become bankrupt or insolvent. Although our lease, loan and management agreements give us 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, federal laws afford certain rights to a party that has filed for bankruptcy or reorganization. For example, a debtor-lessee may reject our lease in a bankruptcy proceeding, in which 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 could be substantially less than the remaining rent actually owed under the lease, and any claim we have for unpaid rent might not be paid in full. In addition, a debtor-lessee may assert in a bankruptcy proceeding that our lease should be re-characterized as a financing agreement, in which case our rights and remedies as a lender, compared to a landlord, generally would be more limited. 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 any of these events, we also may 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 our properties or transition our properties to a new tenant, operator or manager.

We have rights to terminate our management agreements with Atria and Sunrise in whole or with respect to specific properties under certain circumstances, and we may be unable to replace Atria or Sunrise if our management agreements are terminated or not renewed.

We are parties to long-term management agreements pursuant to which Atria and Sunrise, collectively, provided comprehensive property management and accounting services with respect to 269 of our seniors housing communities as of December 31, 2014. Most of our management agreements with Atria have terms expiring either July 31, 2024 or December 31, 2027, with successive automatic ten-year renewal periods, and our management agreements with Sunrise have terms ranging from 25 to 30 years (which commenced as early as 2004 and as recently as 2012). Our ability to terminate these long-term management agreements is limited to specific circumstances set forth in the agreements and may relate to all properties or a specific property or group of properties.

We may terminate any of our Atria management agreements upon the occurrence of an event of default by Atria in the performance of a material covenant or term thereof (including, in certain circumstances, the revocation of any license or certificate necessary for operation), subject in most cases to Atria's right to cure such default, or upon the occurrence of certain insolvency events relating to Atria. In addition, we may terminate our management agreements with Atria based on the failure to achieve certain NOI targets or upon the payment of a fee.

Similarly, we may terminate any of our Sunrise 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 license or certificate necessary for operation), subject in most cases to Sunrise's right to cure such default, or upon the occurrence of certain insolvency events relating to Sunrise. We also may terminate most of our management agreements with Sunrise based on the failure to achieve certain NOI targets or to comply with certain expense control covenants, subject to certain rights of Sunrise to make cure payments to us, and upon the occurrence of certain other events or the existence of certain other conditions.

We continually monitor and assess our contractual rights and remedies under our management agreements with Atria and Sunrise. When determining whether to pursue any existing or future rights or remedies under those agreements, including termination rights, we consider numerous factors, including legal, contractual, regulatory, business and other relevant considerations. In the event that we exercise our rights to terminate the Atria or Sunrise management agreements for any reason or such agreements are not renewed upon expiration of their terms, we would attempt to reposition the affected properties with another manager. Although we believe that many qualified national and regional seniors housing operators would be interested in managing our seniors housing communities, we cannot

assure you that we would be able to locate another suitable manager or, if we are successful in locating such a manager, that it would manage the properties effectively. Moreover, the transition to a replacement manager would require approval by the applicable regulatory authorities and, in most cases, the mortgage lenders for the properties, and we cannot assure you that such approvals would be granted on a timely basis, if at all. Any inability to replace, or a lengthy delay in replacing, Atria or Sunrise as the manager of our seniors housing

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communities following termination or non-renewal of the applicable management agreements could have a Material Adverse Effect on us.

If we must replace any of our tenants or operators, we might be unable to reposition the properties on as favorable terms, or at all, and we could be subject to delays, limitations and expenses, which could have a Material Adverse Effect on us.

We cannot predict whether our tenants will renew existing leases beyond their current term. If our leases with Brookdale Senior Living, the Kindred Master Leases or any of our other triple-net leases are not renewed, we would attempt to reposition those properties with another tenant or operator. In case of non-renewal, we generally have one year prior to expiration of the lease term to arrange for repositioning of the properties and our tenants are required to continue to perform all of their obligations (including the payment of all rental amounts) for the non-renewed assets until such expiration. However, following expiration of a lease term or if we exercise our right to replace a tenant or operator in default, rental payments on the related properties could decline or cease altogether while we reposition the properties with a suitable replacement tenant or operator. We also might not be successful in identifying suitable replacements or entering into leases or other arrangements with new tenants or operators on a timely basis or on terms as favorable to us as our current leases, if at all, and we may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance expenses) to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant or operator, which could have a Material Adverse Effect on us.

In the event of non-renewal or a tenant default, our ability to reposition our properties with a suitable replacement tenant or operator could be significantly delayed or limited by state licensing, receivership, CON or other laws, as well as by the Medicare and Medicaid change-of-ownership rules, and we could incur substantial additional expenses in connection with any licensing, receivership or change-of-ownership proceedings. Our ability to locate and attract suitable replacement tenants also could be impaired by the specialized healthcare uses or contractual restrictions on use of the properties, and we may be forced to spend substantial amounts to adapt the properties to other uses. Any such delays, limitations and expenses could adversely impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for tenant default and could have a Material Adverse Effect on us.

Moreover, in connection with certain of our properties, we have entered into intercreditor agreements with the tenants' lenders or tri-party agreements with our lenders. Our ability to exercise remedies under the applicable leases or management agreements or to reposition the applicable properties may be significantly delayed or limited by the terms of the intercreditor agreement or tri-party agreement. Any such delay or limit on our rights and remedies could adversely affect our ability to mitigate our losses and could have a Material Adverse Effect on us.

Merger and acquisition activity or consolidation in the seniors housing and healthcare industries resulting in a change of control of, or a competitor's investment in, one or more of our tenants, operators or managers could have a Material Adverse Effect on us.

The seniors housing and healthcare industries have recently experienced increased consolidation, including among owners of real estate and care providers. We compete with other healthcare REITs, healthcare providers, healthcare lenders, real estate partnerships, banks, insurance companies, private equity firms and other investors that pursue a variety of investments, which may include investments in our tenants, operators or managers. A competitor's investment in one of our tenants, operators or managers could enable our competitor to influence that tenant's, operator's or manager's business and strategy in a manner that impairs our relationship with the tenant, operator or manager or is otherwise adverse to our interests. Depending on our contractual agreements and the specific facts and circumstances, we may have the right to consent to, or otherwise exercise rights and remedies, including termination rights, on account of, a competitor's investment in, a change of control of, or other transactions impacting a tenant, operator or manager. In deciding whether to exercise our rights and remedies, including termination rights, we assess numerous factors, including legal, contractual, regulatory, business and other relevant considerations. In addition, in connection with any change of control of a tenant, operator or manager, the tenant's, operator's or manager's management team may change, which could lead to a change in the tenant's, operator's or manager's strategy or adversely affect the business of the tenant, operator or manager, either of which could have a Material Adverse Effect on us.

Our pursuit of investments in and acquisitions of, or our development or redevelopment of, seniors housing and healthcare assets may be unsuccessful or fail to meet our expectations.

An important part of our business strategy is to continue to expand and diversify our portfolio through accretive acquisition, investment, development and redevelopment opportunities in domestic and international seniors housing and healthcare properties. Our execution of this strategy by successfully identifying, securing and consummating beneficial transactions is made more challenging by increased competition and can be affected by many factors, including our

relationships with current and prospective clients, our ability to obtain debt and equity capital at costs comparable to or better than our competitors, and our ability to negotiate favorable terms with property owners seeking to sell and other contractual counterparties. Our competitors for these opportunities include other healthcare REITs, real estate partnerships, healthcare providers, healthcare lenders and other investors, including developers, banks, insurance companies, pension funds, government-sponsored entities and private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. See “Business—Competition” included in Item 1 of this Annual Report on Form 10-K. If we are unsuccessful at identifying and capitalizing on investment, acquisition, development and redevelopment opportunities, our growth and profitability may be adversely affected.

Investments in and acquisitions of seniors housing and healthcare properties entail risks associated with real estate investments generally, including risks that the investment will not achieve expected returns, that the cost estimates for necessary property improvements will prove inaccurate or that the tenant, operator or manager will fail to meet performance expectations. Investments outside the United States raise legal, economic and market risks associated with doing business in foreign countries, such as currency exchange fluctuations, costly regulatory requirements and foreign tax risks. Domestic and international real estate development and redevelopment projects present additional risks, including construction delays or cost overruns that increase expenses, the inability to obtain required zoning, occupancy and other governmental approvals and permits on a timely basis, and the incurrence of significant costs prior to completion of the project. Furthermore, healthcare properties are often highly customized and the development or redevelopment of such properties may require costly tenant-specific improvements. As a result, we cannot assure you that we will achieve the economic benefit we expect from acquisition, investment, development and redevelopment opportunities.

Our significant acquisition and investment activity presents certain risks to our business and operations.

We have made and expect to continue to make significant acquisitions and investments as part of our overall business strategy. Our significant acquisition and investment activity presents certain risks to our business and operations, including, among other things, that:

- We may be unable to successfully integrate the operations, personnel or systems of acquired companies, maintain consistent standards, controls, policies and procedures, or realize the anticipated benefits of acquisitions and other investments within the anticipated time frame or at all;

- We may be unable to effectively monitor and manage our expanded portfolio of properties, retain key employees or attract highly qualified new employees;

- Projections of estimated future revenues, costs savings or operating metrics that we develop during the due diligence and integration planning process might be inaccurate;

- Our leverage could increase or our per share financial results could decline if we incur additional debt or issue equity securities to finance acquisitions and investments;

- Acquisitions and other new investments could divert management’s attention from our existing assets;

- The value of acquired assets or the market price of our common stock may decline; and

- We may be unable to continue paying dividends at the current rate.

We cannot assure you that we will be able to integrate acquisitions and investments without encountering difficulties or that any such difficulties will not have a Material Adverse Effect on us.

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

We may assume or incur liabilities in connection with our acquisitions, including, in some cases, contingent liabilities. As we integrate these acquisitions, we may learn additional information about the sellers, the properties, their operations and their 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 sellers;

- Liabilities, claims and litigation, including indemnification obligations, whether or not incurred in the ordinary course of business, relating to periods prior to or following our acquisition;

- Claims for indemnification by general partners, directors, officers and others indemnified by the sellers; and

- Liabilities for taxes relating to periods prior to our acquisition.

As a result, we cannot assure you that our past or future acquisitions will be successful or will not, in fact, harm our business. Among other things, if the liabilities we assume in connection with acquisitions are greater than expected, or if we discover obligations relating to the acquired properties or businesses of which we were not aware at the time of acquisition, our business and results of operations could be materially adversely affected.

We expect to incur substantial expenses related to our acquisition of HCT.

The HCT Acquisition was completed in January 2015. We may incur substantial expenses in connection with integrating HCT's business, operations, networks, systems, technologies, policies and procedures with ours. While we expect to incur a certain level of integration expenses, factors beyond our control could affect the total amount or the timing of integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. As a result, the integration expenses associated with the HCT Acquisition could, particularly in the near term, exceed any savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses.

Our future results will suffer if we do not effectively manage our expanded portfolio and operations following the acquisition of HCT.

As a result of the HCT Acquisition, we have an expanded portfolio and operations and likely will continue to expand operations through additional acquisitions and other strategic transactions, some of which may involve complex challenges. Our future success will depend, in part, upon our ability to manage our expansion opportunities, integrate new operations into our existing business in an efficient and timely manner, successfully monitor our operations, costs, regulatory compliance and service quality, and maintain other necessary internal controls. It is possible that our expansion or acquisition opportunities will not be successful. It is also possible that we will not realize expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

Our investments are concentrated in seniors housing and healthcare real estate, making us more vulnerable economically to adverse changes in the real estate market and the seniors housing and healthcare industries than if our investments were diversified.

We invest primarily in seniors housing and healthcare properties and are constrained by the terms of our existing indebtedness from making investments outside those industries. This investment focus exposes us to greater economic risk than if our portfolio were to include real estate assets in other industries or assets unrelated to real estate.

The healthcare industry is highly regulated, and changes in government regulation and reimbursement can have material adverse consequences on its participants, some of which may be unintended. The healthcare industry is also highly competitive, and our operators and managers may encounter increased competition for residents and patients, including with respect to the scope and quality of care and services provided, reputation and financial condition, physical appearance of the properties, price and location. If our tenants, operators and managers are unable to successfully compete with other operators and managers by maintaining profitable occupancy and rate levels, their ability to meet their respective obligations to us may be materially adversely affected. We cannot assure you that future changes in government regulation will not adversely affect the healthcare industry, including our seniors housing and healthcare operations, tenants and operators, nor can we be certain that our tenants, operators and managers will achieve and maintain occupancy and rate levels that will enable them to satisfy their obligations to us. Any adverse changes in the regulation of the healthcare industry or the competitiveness of our tenants, operators and managers could have a more pronounced effect on us than if we had investments outside the seniors housing and healthcare industries.

Real estate investments are relatively illiquid, and our ability to quickly sell or exchange our properties in response to changes in economic or other conditions is limited. In the event we market any of our properties for sale, the value of those properties and our ability to sell at prices or on terms acceptable to us could be adversely affected by a downturn in the real estate industry or any economic weakness in the seniors housing and healthcare industries. In addition, transfers of healthcare properties may be subject to regulatory approvals that are not required for transfers of other types of commercial properties. We cannot assure you that we will recognize the full value of any property that we sell for liquidity or other reasons, and the inability to respond quickly to changes in the performance of our investments could adversely affect our business, results of operations and financial condition.

Our operating assets expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a Material Adverse Effect on us.

Our senior living and MOB operating assets expose us to various operational risks, liabilities and claims that could increase our costs or adversely affect our ability to generate revenues, thereby reducing our profitability. These operational

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risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), increases in the cost of food, materials, energy, labor (as a result of unionization or otherwise) or other services, rent control regulations, national and regional economic conditions, the imposition of new or increased taxes, capital expenditure requirements, professional and general liability claims, and the availability and cost of professional and general liability insurance. Any one or a combination of these factors could result in operating deficiencies in our senior living operations or MOB operations reportable business segments, which could have a Material Adverse Effect on us.

Our ownership of properties outside the United States exposes us to different risks than those associated with our domestic properties.

Our current or future ownership of properties outside the United States subjects us to risks that may be different or greater than those we face with our domestic properties. These risks include, but are not limited to:

• Challenges with respect to repatriation on foreign earnings and cash;

• Foreign ownership restrictions with respect to operations in countries;

• Regional or country-specific business cycles and economic instability;

• Challenges of complying with a wide variety of foreign laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment and legal proceedings;

• Differences in lending practices and the willingness of domestic or foreign lenders to provide financing; and

• Failure to comply with applicable laws and regulations in the United States that affect foreign operations, including, but not limited to, the U.S. Foreign Corrupt Practices Act.

Increased construction in the markets in which our seniors housing communities and MOB are located could adversely affect our future occupancy rates, operating margins and profitability.

Limited barriers to entry in the seniors housing and MOB industries could lead to the development of new seniors housing communities or MOB that outpaces demand. If development outpaces demand for those assets in the markets in which our properties are located, those markets may become saturated and we could experience decreased occupancy, reduced operating margins and lower profitability.

We have now, and may have in the future, exposure to contingent rent escalators, which could hinder our growth and profitability.

We derive a significant portion of our revenues from leasing properties pursuant to long-term triple-net leases that generally provide for fixed rental rates, subject to annual escalations. In certain cases, the annual escalations are contingent upon the achievement of specified revenue parameters or based on changes in CPI, with caps and floors. If, as a result of weak economic conditions or other factors, the properties subject to these leases do not generate sufficient revenue to achieve the specified rent escalation parameters or CPI does not increase, our growth and profitability may be hindered. If strong economic conditions result in significant increases in CPI, but the escalations under our leases are capped, our growth and profitability also may be limited.

We own certain properties subject to ground lease, air rights or other restrictive agreements that limit our uses of the properties, restrict our ability to sell or otherwise transfer the properties and expose us to loss of the properties if such agreements are breached by us or terminated.

Our investments in MOB and other properties may be made through leasehold interests in the land on which the buildings are located, leases of air rights for the space above the land on which the buildings are located, or other similar restrictive arrangements. Many of these ground lease, air rights and other restrictive agreements impose significant limitations on our uses of the subject properties, restrict our ability to sell or otherwise transfer our interests in the properties or restrict the leasing of the properties. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to find suitable tenants for the properties. In addition, we could lose our interests in the subject properties if the ground lease, air rights or other restrictive agreements are breached by us or terminated.

We may be unable to successfully foreclose on the collateral securing our loans and other investments, and even if we are successful in our foreclosure efforts, we may be unable to successfully sell any acquired equity interests or reposition any acquired properties, which could adversely affect our ability to recover our investments.

If a borrower defaults under mortgage or other secured loans for which we are the lender, we may attempt to foreclose on the collateral securing those loans, including by acquiring any pledged equity interests or acquiring title to the

subject properties, to protect our investment. In response, the defaulting borrower may contest our enforcement of foreclosure or other

available remedies, seek bankruptcy protection against our exercise of enforcement or other available remedies, or bring claims against us for lender liability. If a defaulting borrower seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing foreclosure or other available remedies against the borrower unless relief is first obtained from the court with jurisdiction over the bankruptcy case. In addition, we may be subject to intercreditor or tri-party agreements that delay, impact, govern or limit our ability to foreclose on a lien securing a loan or otherwise delay or limit our pursuit of our rights and remedies. Any such delay or limit on our ability to pursue our rights or remedies could have a Material Adverse Effect on us.

Even if we successfully foreclose on the collateral securing our mortgage loans and other investments, costs related to enforcement of our remedies, high loan-to-value ratios or declines in the value of the collateral could prevent us from realizing the full amount of our secured loans, and we could be required to record a valuation allowance for such losses. Moreover, the collateral may include equity interests that we are unable to sell due to securities law restrictions or otherwise, or properties that we are unable to reposition with new tenants or operators on a timely basis, if at all, or without making improvements or repairs. Any delay or costs incurred in selling or repositioning acquired collateral could adversely affect our ability to recover our investments.

Some of our loan investments are subordinated to loans held by third parties.

Our mezzanine loan investments are subordinated to senior secured loans held by other investors that encumber the same real estate. If a senior secured loan is foreclosed, that foreclosure would extinguish our rights in the collateral for our mezzanine loan. In order to protect our economic interest in that collateral, we would need to be prepared, on an expedited basis, to advance funds to the senior lenders in order to cure defaults under the senior secured loans and prevent such a foreclosure. If a senior secured loan has matured or has been accelerated, then in order to protect our economic interest in the collateral, we would need to be prepared, on an expedited basis, to purchase or pay off that senior secured loan, which could require an infusion of fresh capital as large or larger than our initial investment. Our ability to sell or syndicate a mezzanine loan could be limited by transfer restrictions in the intercreditor agreement with the senior secured lenders. Our ability to negotiate modifications to the mezzanine loan documents with our borrowers could be limited by restrictions on modifications in the intercreditor agreement. Since mezzanine loans are typically secured by pledges of equity rather than direct liens on real estate, our mezzanine loan investments are more vulnerable than our mortgage loan investments to losses caused by competing creditor claims, unauthorized transfers, or bankruptcies.

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

Regulation of the long-term healthcare industry generally has intensified over time both in the number and type of regulations and in the efforts to enforce those regulations. This is particularly true for large for-profit, multi-facility providers like Atria, Sunrise, Brookdale Senior Living and Kindred. 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 that may be entered into by healthcare providers. In addition, changes in enforcement policies by federal and state governments have resulted in an 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. We are unable to predict the scope of future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a material adverse effect on our tenants, operators and managers, which, in turn, could have a Material Adverse Effect on us.

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 or criminal penalties or be required to make significant changes to their operations. Our tenants, operators and managers also could face increased costs related to healthcare regulation, such as the Affordable Care Act, or be forced to expend considerable resources in 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.

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 and on us.

Certain of our tenants and operators rely on reimbursement from third-party payors, including the Medicare and Medicaid programs, for substantially all of their revenues. Federal and state legislators and regulators have adopted or proposed various cost-containment measures that would limit payments to healthcare providers, and budget crises and financial shortfalls have caused states to implement or consider Medicaid rate freezes or cuts. See “Governmental Regulation—Healthcare Regulation” included in Item 1 of this Annual Report on Form 10-K. Private third-party payors also have continued their efforts to control healthcare costs. We cannot assure you that our tenants and operators who currently depend on governmental or private payor reimbursement will be adequately reimbursed for the services they provide. Significant limits by governmental and private third-party payors on the scope of services reimbursed or on reimbursement rates and fees, whether from legislation, administrative actions or private payor efforts, 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 comply with the terms of our leases and have a Material Adverse Effect on us.

The hospitals on or near whose campuses our MOBs are located and their affiliated health systems could fail to remain competitive or financially viable, which could adversely impact their ability to attract physicians and physician groups to our MOBs.

Our MOB operations depend on the competitiveness and financial viability of the hospitals on or near whose campuses our MOBs are located and their ability to attract physicians and other healthcare-related clients to our MOBs. The viability of these hospitals, in turn, depends on factors such as the quality and mix of healthcare services provided, competition for patients, physicians and physician groups, demographic trends in the surrounding community, market position and growth potential, as well as the ability of the affiliated health systems to provide economies of scale and access to capital. If a hospital on or near whose campus one of our MOBs is located fails or becomes unable to meet its financial obligations, and if an affiliated health system is unable to support that hospital, the hospital may be unable to compete successfully or could be forced to close or relocate, which could adversely impact its ability to attract physicians and other healthcare-related clients. Because we rely on proximity to and affiliations with hospitals to create leasing demand in our MOBs, a hospital’s inability to remain competitive or financially viable, or to attract physicians and physician groups, could materially adversely affect our MOB operations and have a Material Adverse Effect on us.

We may not be able to maintain or expand our relationships with our existing and future hospital and health system clients.

The success of our MOB operations depends, to a large extent, on our past, current and future relationships with hospitals and their affiliated health systems. We invest significant amounts of time in developing our relationships with both new and existing clients, and these relationships have helped us to secure acquisition and development opportunities, as well as other advisory, property management and hospital project management projects. If our relationships with hospitals and their affiliated health systems deteriorate, or if a conflict of interest or non-compete arrangement prevents us from expanding these relationships, our ability to secure new acquisition and development opportunities or other advisory, property management and hospital project management projects could be impaired and our professional reputation within the industry could be damaged.

Our development and redevelopment projects, including projects undertaken on a fee-for-service basis or through our joint ventures, may not yield anticipated returns.

We consider and, when appropriate, invest in various development and redevelopment projects. In deciding whether to make an investment in a particular project, we make certain assumptions regarding the expected future performance of the property. Our assumptions are subject to risks generally associated with development and redevelopment projects, including, among others, that:

• We may be unable to obtain financing for the project on favorable terms or at all;

• We may not complete the project on schedule or within budgeted amounts;

We may encounter delays in obtaining or fail to obtain all necessary zoning, land use, building, occupancy, environmental and other governmental permits and authorizations, or underestimate the costs necessary to develop or redevelop the property to market standards;

Construction or other delays may provide tenants or residents the right to terminate preconstruction leases or cause us to incur additional costs;

• Volatility in the price of construction materials or labor may increase our project costs;

- In the case of our MOB developments, hospitals or health systems may maintain significant decision-making authority with respect to the development schedule;
- Our builders may fail to perform or satisfy the expectations of our clients or prospective clients;
- We may incorrectly forecast risks associated with development in new geographic regions;
- Tenants may not lease space at the quantity or rental rate levels or on the schedule projected;
- Demand for our project may decrease prior to completion, including due to competition from other developments; and
- Lease rates and rents at newly developed or redeveloped properties may fluctuate based on factors beyond our control, including market and economic conditions.

In MOB development projects that we undertake on a fee-for-service basis, we generally construct properties for clients in exchange for a fixed fee, which creates additional risks such as the inability to pass on increased labor and construction material costs to our clients, development and construction delays that could give our counterparties the right to receive penalties from us, and bankruptcy or default by our contractors. We attempt to mitigate these risks by establishing certain limits on our obligations, shifting some of the risk to the general contractor or seeking other legal protections, but we cannot assure you that our mitigation efforts will be effective. In connection with these projects, we provide engineering, construction and architectural services, and any design, construction or systems failures related to the properties we develop could result in substantial injury or damage to clients or third parties. Any such injury or damage claims may arise in the ordinary course and may be asserted with respect to ongoing or completed projects. Although we maintain liability insurance to protect us against these claims, if any claim results in a loss, we cannot assure you that our policy limits would be adequate to cover the loss in full. If we sustain losses in excess of our insurance coverage, we may be required to fund the difference and could lose our investment in, or experience reduced profits and cash flows from, the affected MOB, which could have a Material Adverse Effect on us.

If any of the risks described above occur, our development and redevelopment projects, including projects undertaken on a fee-for-service basis or through our joint ventures, may not yield anticipated returns, which could have a Material Adverse Effect on us.

Our investments in joint ventures and unconsolidated entities could be adversely affected by our lack of sole decision-making authority, 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, 2014, we owned 28 MOBs, 15 seniors housing communities, six skilled nursing facilities and one hospital through consolidated joint ventures, and we had ownership interests ranging between 5% and 25% in 17 MOBs, 20 seniors housing communities and 14 skilled nursing facilities through investments in unconsolidated entities. In addition, we had a 34% ownership interest in Atria as of December 31, 2014. These joint ventures and unconsolidated entities involve risks not present with respect to our wholly owned properties, including the following: We may be unable to take actions that are opposed by our joint venture partners under arrangements that require us to share decision-making authority over 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;

• For joint ventures in which we have a noncontrolling interest, our joint venture partners may take actions that we oppose;

- Our ability to sell or transfer our interest in a joint venture to a third party may be restricted if we fail to obtain the prior consent of our joint venture partners;

• Our joint venture partners may become bankrupt or fail to fund their share of required capital contributions, which could delay construction or development of a property or increase our financial commitment to the joint venture;

- Our joint venture partners may have business interests or goals with respect to a property that conflict with our business interests and goals, including with respect to the timing, terms and strategies for investment, which could increase the likelihood of disputes regarding the ownership, management or disposition of the property;
- Disagreements with our joint venture partners could result in litigation or arbitration that increases our expenses, distracts our officers and directors, and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved; and

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

Events that adversely affect the ability of seniors and their families to afford daily resident fees at our seniors housing communities could cause our occupancy rates, resident fee revenues and results of operations to decline.

Assisted and independent living services generally are not reimbursable under government reimbursement programs, such as Medicare and Medicaid. Substantially all of the resident fee revenues generated by our senior living operations, therefore, are derived from private pay sources consisting of the income or assets of residents or their family members. In light of the significant expense associated with building new properties and staffing and other costs of providing services, typically only seniors with income or assets that meet or exceed the comparable region median can afford the daily resident and care fees at our seniors housing communities, and a weak economy, depressed housing market or changes in demographics could adversely affect their continued ability to do so. If the managers of our seniors housing communities are unable to attract and retain seniors that have sufficient income, assets or other resources to pay the fees associated with assisted and independent living services, the occupancy rates, resident fee revenues and results of operations of our senior living operations could decline, which, in turn, could have a Material Adverse Effect on us.

Termination of resident lease agreements in our seniors housing communities could adversely affect our revenues and earnings.

State regulations generally require assisted living communities to have a written lease agreement with each resident that permits the resident to terminate his or her lease for any reason on reasonable notice, unlike typical apartment lease agreements that have initial terms of one year or longer. Consistent with these regulations, the managers of our seniors housing communities generally enter into resident lease agreements that allow residents to terminate their lease agreements on 30 days' notice. Due to these lease termination rights and the advanced age of the residents, 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 the affected units remain unoccupied, 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 or require in our lease, management and other agreements that our tenants, operators and managers maintain all applicable lines of insurance on our properties and their operations. Although we regularly review the amount and scope of insurance provided by our policies and required to be maintained by 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 we or our tenants, operators and managers will continue to be able to maintain adequate levels of insurance. We also cannot assure you that we or our tenants, operators and managers will maintain the required coverages, that we will continue to require the same levels of insurance under our lease, management and other agreements, that such insurance will be available at a reasonable cost in the future or that the policies maintained will fully cover all losses on our properties upon the occurrence of a catastrophic event, nor can we make any guaranty as to the future financial viability of the insurers that underwrite our policies and the policies maintained by our tenants, operators and managers.

For various reasons, including to reduce and manage costs, many healthcare companies utilize different organizational and corporate structures coupled with self-insurance trusts or captive programs that may provide less insurance coverage than a traditional insurance policy. Companies 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 that 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. As a result, the tenants and operators of our properties who self-insure could incur large funded and unfunded general and professional liability expenses, which could materially adversely affect their liquidity, financial condition and results of operations and, in turn, their ability to satisfy their obligations to us. If we or the managers of our senior living operations decide to implement a captive or self-insurance program, any large funded and unfunded general and professional liability expenses incurred could have a Material Adverse Effect on us.

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. Following the occurrence of 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 or regulatory proceedings could subject us or our tenants, operators and managers to increased operating costs and substantial uninsured liabilities, which could materially adversely affect our or their liquidity, financial condition and results of operations.

From time to time, we may be subject to claims brought against us in lawsuits and other legal or regulatory proceedings arising out of our alleged actions or the alleged actions of our tenants, operators and managers for which such tenants, operators and managers may have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation or proceeding could materially adversely affect our or their liquidity, financial condition and results of operations and have a Material Adverse Effect on us.

In certain cases, we and our tenants, operators and managers may be subject to professional liability claims brought by plaintiffs' attorneys seeking significant punitive damages and attorneys' fees. Due to the historically high frequency and severity of professional liability claims against seniors housing and healthcare providers, the availability of professional liability insurance has decreased and the premiums on such insurance coverage remain costly. As a result, insurance protection against such claims may not be sufficient to cover all claims against us or our tenants, operators or managers, and may not be available at a reasonable cost. If we or our tenants, operators and managers are unable to maintain adequate insurance coverage or are required to pay punitive damages, we or they may be exposed to substantial liabilities.

The occurrence of cyber incidents could disrupt our operations, result in the loss of confidential information and/or damage our business relationships and reputation.

As our reliance on technology has increased, our business is subject to greater risk from cyber incidents, including attempts to gain unauthorized access to our or our managers' systems to disrupt operations, corrupt data or steal confidential information, and other electronic security breaches. While we and our managers have implemented measures to help mitigate these threats, such measures cannot guarantee that we will be successful in preventing a cyber incident. The occurrence of a cyber incident could disrupt our operations, or the operations of our managers, compromise the confidential information of our employees or the residents in our seniors housing communities, and/or damage our business relationships and reputation.

Reductions in federal government spending, tax reform initiatives or other federal legislation to address the federal government's projected operating deficit could have a material adverse effect on our operators' liquidity, financial condition or results of operations.

President Obama and members of the U.S. Congress have approved or proposed various spending cuts and tax reform initiatives that have resulted or could result in changes (including substantial reductions in funding) to Medicare, Medicaid or Medicare Advantage Plans. Any such existing or future federal legislation relating to deficit reduction that reduces reimbursement payments to healthcare providers could have a material adverse effect on certain of our operators' liquidity, financial condition or results of operations, which could adversely affect their ability to satisfy their obligations to us and 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 brought against our operators, such suits combined with increased operating costs and substantial uninsured liabilities could have a material adverse effect on our operators' liquidity, financial condition and results of operations and on their ability to satisfy their obligations under our leases, which, in turn, could have a Material Adverse Effect on us.

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

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 generally have indemnification rights against the current operators of our properties for contamination caused by them, such indemnification may not adequately cover all environmental costs. See “Governmental Regulation—Environmental Regulation” included in Item 1 of this Annual Report on Form 10-K.

Volatility or disruption in the capital markets could prevent our counterparties from satisfying their obligations to us. Interest rate fluctuations, financial market volatility or credit market disruptions could limit the ability of our tenants, operators and managers to obtain capital to finance their businesses on acceptable terms, which could adversely affect their ability to satisfy their obligations to us. In addition, any difficulty in accessing capital or other financing sources experienced by our other counterparties, such as letters of credit issuers, insurance carriers, banking institutions, title companies and escrow agents, could prevent those counterparties from remaining viable entities or satisfying their obligations to us, which could have a Material Adverse Effect on us.

Our success depends, in part, on our ability to attract and retain talented employees, and the loss of any one of our key personnel 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, and our ability to attract, retain and motivate talented employees could significantly impact our future performance. Competition for these individuals is intense, and we cannot assure you that we will retain our key officers and employees or that we will be able to attract and 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. Because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud, effective internal controls over financial reporting may not prevent or detect misstatement and 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 failure to implement required new or improved controls as a result of changes to our business or otherwise, 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.

Economic and other conditions that negatively affect geographic locations to which a greater percentage of our NOI is attributed could adversely affect our financial results.

For the year ended December 31, 2014, approximately 37.7% of our total NOI (excluding amounts in discontinued operations) was derived from properties located in California (13.7%), Texas (8.0%), New York (6.8%), Illinois (4.7%), and Florida (4.5%). As a result, we are subject to increased exposure to adverse conditions affecting these regions, including downturns in the local economies or changes in local real estate conditions, increased construction and competition or decreased demand for our properties, regional climate events and changes in state-specific legislation, which could adversely affect our business and results of operations.

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

Our ownership of properties in Canada and the United Kingdom currently subjects us to fluctuations in the exchange rates between U.S. dollars and Canadian dollars or the British pound, which may, from time to time, impact our financial condition and results of operations. If we continue to expand our international presence through investments in, or acquisitions or development of, seniors housing or healthcare assets outside the United States, Canada or the United Kingdom, we may transact business in other foreign currencies. Although we may pursue hedging alternatives, including borrowing in local currencies, to protect against foreign currency fluctuations, we cannot assure you that such fluctuations will not have a Material Adverse Effect on us.

Risks Arising from Our Capital Structure

We may become more leveraged.

As of December 31, 2014, we had approximately \$10.9 billion of outstanding indebtedness. The instruments governing our existing indebtedness permit us to incur substantial additional debt, including secured debt, and we may satisfy our capital and liquidity needs through additional 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 make distributions to stockholders. A high level of indebtedness could also have the following consequences:

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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 or healthcare industries;

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Potential impairment of our ability to obtain additional financing to execute on 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, limiting our access to capital and increasing our cost of borrowing.

In addition, from time to time, we mortgage certain of 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 resulting loss of income and asset value.

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, investment, development and redevelopment activity, and our decision to hedge against interest rate risk might not be effective.

We receive a significant portion of our revenues by leasing assets under long-term triple-net leases that generally provide for fixed rental rates subject to annual escalations, while certain of our debt obligations are floating rate obligations with interest and related payments that vary with the movement of LIBOR, Bankers' Acceptance or other indexes. The generally fixed rate nature of a significant portion of our revenues and the variable rate nature of certain of our debt obligations create interest rate risk. Although our operating assets provide a partial hedge against interest rate fluctuations, if interest rates rise, the costs of our existing floating rate debt and any new debt that we incur would increase. These increased costs could reduce our profitability, impair our ability to meet our debt obligations, or increase the cost of financing our acquisition, investment, development and redevelopment activity. An increase in interest rates also could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing, as well as decrease the amount that third parties are willing to pay for our assets, thereby limiting our ability to promptly reposition our portfolio in response to changes in economic or other conditions.

We may seek to manage our exposure to interest rate volatility with hedging arrangements that involve additional risks, including the risks 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 earn from hedging transactions may be limited by federal tax provisions governing REITs, and that these arrangements may cause us to pay higher interest rates on our debt obligations than otherwise would be the case. Moreover, no amount of hedging activity can fully 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.

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

We cannot assure you that we will be able to raise the capital necessary to meet our debt service obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy, if our cash flow from operations is insufficient to satisfy these needs, and the failure to do so could have a Material Adverse Effect on us. Although we believe that we have sufficient access to capital and other sources of funding to meet our expected liquidity needs, we cannot assure you that conditions in the capital markets will not deteriorate or that our access to capital and other sources of funding will not become constrained, which could adversely affect the availability and terms of future borrowings, renewals or refinancings and our results of operation and financial condition. If we cannot access capital at an acceptable cost or at all, we may be required to liquidate one or more investments in properties at times that may not permit us to maximize the return on those investments or that could result in adverse tax consequences to us.

As a public company, our access to debt and equity capital depends, in part, on the trading prices of our senior notes and common stock, which, in turn, depend upon market conditions that change from time to time, such as the market's perception of our financial condition, our growth potential and our current and expected future earnings and cash distributions. Our failure to meet the market's expectation with regard to future earnings and cash distributions or a significant downgrade in the ratings assigned to our long-term debt could impact our ability to access capital or increase our borrowing costs. We also rely on the financial institutions that are parties to our unsecured revolving credit facility. If these institutions become capital constrained, tighten their lending standards or become insolvent or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time, they may be unable or unwilling to honor their funding commitments to us, which would adversely affect our ability to

draw on our unsecured revolving credit facility 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.

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Covenants in the instruments governing our existing indebtedness limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of the instruments governing our existing indebtedness require us to comply with certain customary financial and other covenants, such as maintaining debt service coverage, leverage ratios and minimum net worth requirements. Our continued ability to incur additional debt and to conduct business in general is subject to our compliance with these covenants, which limit our operational flexibility. Breaches of these covenants could result in defaults under the applicable debt instruments and could trigger defaults under any of our other indebtedness that is 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 our breach of any of these covenants, 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 for us and the value of our common stock. If we lose our status as a REIT (currently or with respect to any tax years for which the statute of limitations has not expired), we will face serious tax consequences that will substantially reduce the funds available to satisfy our obligations, to implement our business strategy and to make distributions 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 could be subject to the federal alternative minimum tax and 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, which could adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of factual matters and circumstances not entirely within our control, as well as 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 currently qualify as a REIT, we cannot assure you that we will continue to qualify for all future periods. 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. Such distributions reduce the funds we have available to finance our investment, acquisition, development and redevelopment activity and may limit our ability to engage in transactions that are otherwise in the best interests of our stockholders.

Although we do not anticipate any inability to satisfy the REIT distribution requirement, from time to time, we may not have sufficient cash or other liquid assets to do so. For example, 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, or non-deductible expenses such as principal amortization or repayments or capital expenditures in excess of non-cash deductions may prevent us from having sufficient cash or liquid assets 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 seek to borrow funds, issue additional equity securities, pay taxable stock dividends, distribute other property or securities or engage in a transaction intended to enable us to meet the REIT distribution requirements. Any of these actions 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 make required payments on our debt obligations, make distributions to our stockholders or make future investments necessary to implement our business strategy.” The terms of the instruments governing our existing indebtedness restrict our ability to engage in certain 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 9.0% of our outstanding common stock or more than 9.9% of our outstanding preferred stock, the shares that are beneficially owned in excess of the applicable limit are considered “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. In addition, we have the right to purchase the excess shares for a 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 purchase the shares, but if we do not purchase the excess shares, the trustee of the trust is required to transfer the shares at the direction of our 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.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Seniors Housing and Healthcare Properties

As of December 31, 2014, we owned more than 1,500 properties (including properties classified as held for sale), consisting of seniors housing communities, MOBs, skilled nursing and other facilities, and hospitals, and we had one new property under development. We believe that maintaining a balanced portfolio of high-quality assets diversified by investment type, geographic location, asset type, tenant/operator, revenue source and operating model makes us less susceptible to single-state regulatory or reimbursement changes, regional climate events and local economic downturns and diminishes the risk that any single factor or event could materially harm our business.

As of December 31, 2014, we had \$2.3 billion aggregate principal amount of mortgage loan indebtedness outstanding, secured by 178 of our properties. Excluding those portions attributed to our joint venture and operating partners, our share of mortgage loan indebtedness outstanding was \$2.2 billion.

The following table provides additional information regarding the geographic diversification of our portfolio of properties as of December 31, 2014 (including properties owned through investments in unconsolidated entities, but excluding properties classified as held for sale):

Geographic Location	Seniors Housing Communities		Skilled Nursing and Other Facilities		MOBs	Square Feet	Hospitals	
	Number of Properties	Units	Number of Properties	Licensed Beds	Number of Properties		Number of Properties	Licensed Beds
Alabama	7	435	2	329	4	468,887	—	—
Arizona	26	2,378	2	232	11	773,109	3	169
Arkansas	4	286	8	875	—	—	—	—
California	85	9,734	9	1,115	24	1,970,387	7	530
Colorado	19	1,742	4	460	12	828,693	1	68
Connecticut	14	1,626	4	432	—	—	—	—
District of Columbia	—	—	—	—	2	101,580	—	—
Florida	46	4,493	1	171	14	315,405	6	511
Georgia	12	1,217	5	620	14	1,152,857	—	—
Idaho	1	70	7	624	—	—	—	—
Illinois	17	2,606	1	82	30	1,109,898	4	430
Indiana	16	1,235	34	3,782	15	947,857	1	59
Kansas	12	724	4	325	—	—	—	—
Kentucky	10	910	29	3,273	4	172,977	2	424
Louisiana	1	58	—	—	4	343,223	1	168
Maine	6	879	8	654	—	—	—	—
Maryland	5	360	3	445	2	82,663	—	—
Massachusetts	20	2,176	42	4,882	—	—	2	109
Michigan	24	1,642	1	330	10	414,518	—	—
Minnesota	18	1,041	3	466	3	243,098	—	—
Mississippi	1	52	—	—	1	50,575	—	—
Missouri	1	87	12	1,086	19	1,053,579	2	227
Montana	2	189	2	276	—	—	—	—
Nebraska	1	135	—	—	—	—	—	—
Nevada	6	611	3	299	2	149,248	1	52
New Hampshire	1	125	3	502	—	—	—	—
New Jersey	14	1,241	1	153	—	—	—	—
New Mexico	4	482	—	—	—	—	1	61
New York	42	4,684	9	1,566	1	111,634	—	—
North Carolina	22	2,179	17	1,876	18	797,628	1	124
North Dakota	1	48	—	—	—	—	—	—
Ohio	26	1,753	20	2,624	28	1,221,020	1	50
Oklahoma	8	431	—	—	—	—	1	59
Oregon	24	2,528	14	1,112	1	105,375	—	—
Pennsylvania	32	2,351	7	934	7	565,562	2	115
Rhode Island	6	648	1	129	—	—	—	—
South Carolina	4	340	4	602	18	1,012,959	—	—
South Dakota	4	182	2	246	—	—	—	—
Tennessee	20	1,575	5	601	10	381,234	1	49
Texas	58	4,942	51	5,375	13	1,032,552	10	615

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Utah	4	501	5	476	—	—	—	—
Vermont	—	—	1	144	—	—	—	—
Virginia	8	655	9	1,323	3	126,500	—	—
Washington	21	2,183	18	1,788	10	578,975	—	—
West Virginia	2	124	4	326	—	—	—	—
Wisconsin	68	2,932	17	1,968	12	482,093	—	—
Wyoming	2	168	4	371	—	—	—	—
Total U.S.	725	64,758	376	42,874	292	16,594,086	47	3,820
Canada	41	4,478	—	—	—	—	—	—
United Kingdom	—	—	3	121	—	—	—	—
Total	766	69,236	379	42,995	292	16,594,086	47	3,820

Corporate Offices

Our headquarters are located in Chicago, Illinois, and we have additional corporate offices in: Louisville, Kentucky; Plano, Texas; and Irvine, California. We lease all of our corporate offices.

ITEM 3. Legal Proceedings

The information contained in “Note 16—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.

In July 2014, we voluntarily contacted the SEC to advise it of the determination by our former registered public accounting firm, Ernst & Young LLP (“EY”), that it was not independent of us due solely to an inappropriate personal relationship between an EY partner, who until June 30, 2014 was the lead audit partner on our 2014 audit and quarterly review and was previously an audit engagement partner on our 2013 and 2012 audits, and an individual in a financial reporting oversight role at our company. We have cooperated with the SEC and intend to continue to do so with respect to its inquiries related to this matter. At this time, the matter is ongoing and we cannot reasonably assess its timing or outcome.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

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

	Sales Price of Common Stock		Dividends Declared
	High	Low	
2013			
First Quarter	\$73.20	\$64.68	\$0.67
Second Quarter	82.93	64.38	0.67
Third Quarter	72.16	58.86	0.67
Fourth Quarter	67.33	55.26	0.725
2014			
First Quarter	\$63.67	\$56.79	\$0.725
Second Quarter	68.40	61.29	0.725
Third Quarter	66.04	60.70	0.725
Fourth Quarter	74.44	62.48	0.79

As of February 10, 2015, we had 330,809,789 shares of our common stock outstanding held by approximately 5,284 stockholders of record.

Dividends and Distributions

We pay regular quarterly dividends to holders of our common stock to comply with the provisions of the Code governing REITs. In connection with the HCT Acquisition, on January 5, 2015, our Board of Directors declared a prorated first quarter dividend on our common stock in the amount of \$0.2107 per share, which was paid in cash on January 27, 2015 to stockholders of record on January 15, 2015. On February 13, 2015, our Board of Directors declared another prorated dividend on our common stock in the amount of \$0.5793 per share, payable in cash on March 31, 2015 to stockholders of record on March 6, 2015. Together, these two prorated amounts equate to the first quarterly installment of our 2015 dividend of \$0.79 per share.

We expect to distribute at least 100% of our taxable net income, after the use of any net operating loss carryforwards, to our stockholders for 2015. 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.

In general, our Board of Directors makes decisions regarding the nature, frequency and amount of our dividends on a quarterly basis. Because the Board considers many factors when making these decisions, including our present and future liquidity needs, our current and projected financial condition and results of operations and the performance and credit quality of our tenants, operators, borrowers and managers, we cannot assure you that we will maintain the practice of paying regular quarterly dividends to continue to qualify as a REIT. 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.

Prior to its suspension in July 2014, our stockholders were entitled to 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 (“DRIP”), subject to the terms of the plan. See “Note 17—Permanent and Temporary Equity” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. We may determine whether or not to reinstate the DRIP at any time, in our sole discretion.

Director and Employee Stock Sales

Certain of our directors, executive officers and other employees have adopted and, from time to time in the future, may adopt non-discretionary, written trading plans that comply with Rule 10b5-1 under the Exchange Act, or otherwise monetize, gift or transfer their equity-based compensation. These transactions typically are conducted for estate, tax and financial planning purposes and are subject to compliance with our Amended and Restated Securities Trading Policy and Procedures (“Securities Trading Policy”), the minimum stock ownership requirements contained in our Guidelines on Governance and all applicable laws and regulations.

Our Securities Trading Policy expressly prohibits our directors, executive officers and employees from buying or selling derivatives with respect to our securities or other financial instruments that are designed to hedge or offset a decrease in the market value of our securities and from engaging in short sales with respect to our securities. In addition, our Securities Trading Policy prohibits our directors and executive officers from holding our securities in margin accounts or pledging our securities to secure loans without the prior approval of our Audit and Compliance Committee. Each of our executive officers has advised us that he or she is in compliance with the Securities Trading Policy and has not pledged any of our equity securities to secure margin or other loans.

Stock Repurchases

The table below summarizes repurchases of our common stock made during the quarter ended December 31, 2014:

	Number of Shares Repurchased (1)	Average Price Per Share
October 1 through October 31	—	\$—
November 1 through November 30	988	\$61.50
December 1 through December 31	7,125	\$71.70

Repurchases represent shares withheld to pay taxes on the vesting of restricted stock granted to employees under our 2006 Incentive Plan or 2012 Incentive Plan or restricted stock units granted to employees under the Nationwide Health Properties, Inc. (“NHP”) 2005 Performance Incentive Plan and assumed by us in connection with our acquisition of NHP. The value of the shares withheld is the closing price of our common stock on the date the vesting or exercise occurred (or, if not a trading day, the immediately preceding trading day) or the fair market value of our common stock at the time of the exercise, as the case may be.

Unregistered Sales of Equity Securities

On November 14, 2014, we issued 92,993 shares of our common stock to Sarah M. Jensen as consideration for our acquisition of all of the outstanding shares of Jensen Construction Management, Inc. (“Jensen Construction”). In connection with the acquisition, we entered into waiver and release agreements with two Jensen Construction employees pursuant to which we issued 53,469 shares and 1,779 shares, respectively, of our common stock to those employees in exchange for, and in full satisfaction of, any right, interest, ownership or claim that they may have had

with respect to any interest in, or securities or assets of, Jensen Construction. The shares of our common stock were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506(b) promulgated thereunder.

On December 1, 2014, NHP/PMB L.P. (“NHP/PMB”), a limited partnership in which we own a majority interest, issued 383,062 Class A limited partnership units (“OP Units”) in connection with the contribution of an MOB to NHP/PMB.

At any time following the first anniversary of their issuance, the OP Units may be redeemed at the election of the holder for cash or, at our option, 0.7866 shares of our common stock per unit, subject to adjustment in certain circumstances. The OP Units were issued solely to “accredited investors” (as such term is defined in Rule 501 under the Securities Act) in reliance on the exemption from registration provided by Section 4(2) of the Securities Act.

Stock Performance Graph

The following performance graph compares the cumulative total return (including dividends) to the holders of our common stock from December 31, 2009 through December 31, 2014, with the cumulative total returns of the NYSE Composite Index, the FTSE NAREIT Composite REIT Index (the “Composite REIT Index”) and the S&P 500 Index over the same period. The comparison assumes \$100 was invested on December 31, 2009 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, and we have included the S&P 500 Index because we are a member of the S&P 500. We have included the Composite REIT Index because we believe that it is most representative of the industries in which we compete, or otherwise provides a fair basis for comparison with us, and is therefore particularly relevant to an assessment of our performance. The figures in the table below are rounded to the nearest dollar.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Ventas	\$100	\$125.41	\$137.67	\$168.38	\$155.51	\$203.61
NYSE Composite Index	\$100	\$113.76	\$109.70	\$127.54	\$161.21	\$172.27
Composite REIT Index	\$100	\$127.56	\$136.88	\$163.89	\$167.72	\$213.39
S&P 500 Index	\$100	\$115.06	\$117.48	\$136.27	\$180.39	\$205.07

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, dispositions, changes in accounting policies and other items may impact the comparability of the financial data.

	As of and For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share data)				
Operating Data					
Rental income	\$ 1,433,995	\$ 1,327,383	\$ 1,180,731	\$ 795,214	\$ 518,616
Resident fees and services	1,552,951	1,406,005	1,227,124	865,800	445,157
Interest expense	376,842	334,909	288,717	224,344	170,133
Property-level operating expenses	1,195,098	1,109,632	966,422	645,082	314,985
General, administrative and professional fees	121,746	115,106	98,510	74,537	49,830
Income from continuing operations attributable to common stockholders, including real estate dispositions	473,661	489,788	308,814	362,900	212,284
Discontinued operations	2,106	(36,279)	53,986	1,593	33,883
Net income attributable to common stockholders	475,767	453,509	362,800	364,493	246,167
Per Share Data					
Income from continuing operations attributable to common stockholders, including real estate dispositions:					
Basic	\$ 1.61	\$ 1.67	\$ 1.06	\$ 1.59	\$ 1.35
Diluted	\$ 1.59	\$ 1.66	\$ 1.05	\$ 1.57	\$ 1.35
Net income attributable to common stockholders:					
Basic	\$ 1.62	\$ 1.55	\$ 1.24	\$ 1.60	\$ 1.57
Diluted	\$ 1.60	\$ 1.54	\$ 1.23	\$ 1.58	\$ 1.56
Dividends declared per common share	\$ 2.965	\$ 2.735	\$ 2.48	\$ 2.30	\$ 2.14
Other Data					
Net cash provided by operating activities	\$ 1,254,845	\$ 1,194,755	\$ 992,816	\$ 773,197	\$ 447,622
Net cash used in investing activities	(2,055,040)	(1,282,760)	(2,169,689)	(997,439)	(301,920)
Net cash provided by (used in) financing activities	758,057	114,996	1,198,914	248,282	(231,452)
FFO (1)	1,273,680	1,208,458	1,024,567	824,851	421,506
Normalized FFO (1)	1,330,018	1,220,709	1,120,225	776,963	453,981
Balance Sheet Data					
Real estate investments, at cost	\$ 23,010,945	\$ 21,403,592	\$ 19,745,607	\$ 17,830,262	\$ 6,747,699
Cash and cash equivalents	55,348	94,816	67,908	45,807	21,812
Total assets	21,226,171	19,731,494	18,980,000	17,271,910	5,758,021
Senior notes payable and other debt	10,888,092	9,364,992	8,413,646	6,429,116	2,900,044

We believe that net income, as defined by U.S. generally accepted accounting principles (“GAAP”), is the most (1) appropriate earnings measurement. However, we consider Funds From Operations (“FFO”) and normalized FFO to be

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appropriate measures of operating performance of an equity REIT. In particular, we believe that normalized FFO is useful because it allows investors, analysts and our management to compare our operating performance to the operating performance of other real estate companies and between periods on a consistent basis without having to account for differences caused by unanticipated items and other events such as transactions and litigation. In some cases, we provide information about identified non-cash components of FFO and normalized FFO because it allows investors, analysts and our management to assess the impact of those items on our financial statements.

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, including gain on re-measurement of equity method investments, and impairment write-downs of depreciable real estate, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect FFO on the same basis. We define normalized FFO as FFO excluding the following income and expense items (which may be recurring in nature): (a) merger-related costs and expenses, including amortization of intangibles, transition and integration expenses, and deal costs and expenses, including expenses and recoveries relating to our acquisition lawsuits; (b) 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, make-whole payments, penalties or premiums incurred as a result of early retirement or payment of our debt; (c) the non-cash effect of income tax benefits or expenses and derivative transactions that have non-cash mark-to-market impacts on our Consolidated Statements of Income; (d) the impact of future acquisitions, divestitures (including pursuant to tenant options to purchase) and capital transactions; (e) the financial impact of contingent consideration, severance-related costs, charitable donations made to the Ventas Charitable Foundation, gains and losses for non-operational foreign currency hedge agreements and changes in the fair value of financial instruments; and (f) expenses related to the re-audit and re-review in 2014 of our historical financial statements and related matters.

FFO and normalized FFO presented in this Annual Report on Form 10-K, or otherwise disclosed by us, may not be comparable to FFO and normalized FFO presented by other real estate companies due to the fact that not all real estate companies use the same definitions. FFO and normalized FFO (or either measure adjusted for non-cash items) 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 (or either measure adjusted for non-cash items) necessarily 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 and Normalized Funds from Operations” included in Item 7 of this Annual Report on Form 10-K for a reconciliation of FFO and normalized FFO to our GAAP earnings.

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

The following discussion provides information that management believes is relevant to an understanding and assessment of the consolidated financial condition and results of operations 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, as it will help you understand:

- Our company and the environment in which we operate;
- Our 2014 highlights and other recent developments;
- Our critical accounting policies and estimates;
- Our results of operations for the last three years;
- How we manage our assets and liabilities;
- Our liquidity and capital resources;
- Our cash flows; and
- Our future contractual obligations.

Corporate and Operating Environment

We are a real estate investment trust (“REIT”) with a highly diversified portfolio of seniors housing and healthcare properties located throughout the United States, Canada and the United Kingdom. As of December 31, 2014, we owned more than 1,500 properties (including properties classified as held for sale), consisting of seniors housing communities, medical

office buildings (“MOBs”), skilled nursing and other facilities, and hospitals, and we had one new property under development. We are an S&P 500 company and currently headquartered in Chicago, Illinois.

We primarily invest in seniors housing and healthcare properties through acquisitions and lease our properties to unaffiliated tenants or operate them through independent third-party managers. As of December 31, 2014, we leased a total of 922 properties (excluding MOBs and properties classified as held for sale) to various healthcare operating companies under “triple-net” or “absolute-net” leases that obligate the tenants to pay all property-related expenses, including maintenance, utilities, repairs, taxes, insurance and capital expenditures, and we engaged independent operators, such as Atria Senior Living, Inc. (“Atria”) and Sunrise Senior Living, LLC (together with its subsidiaries, “Sunrise”), to manage 270 of our seniors housing communities (excluding properties classified as held for sale) for us pursuant to long-term management agreements. Our two largest tenants, Brookdale Senior Living Inc. (together with its subsidiaries, “Brookdale Senior Living”) and Kindred Healthcare, Inc. (together with its subsidiaries, “Kindred”), leased from us 160 properties (excluding six properties owned through investments in unconsolidated entities and one property managed by Brookdale Senior Living pursuant to a long-term management agreement) and 83 properties, respectively, as of December 31, 2014.

Through our Lillibridge Healthcare Services, Inc. (“Lillibridge”) subsidiary and our ownership interest in PMB Real Estate Services LLC (“PMBRES”), we also provide MOB management, leasing, marketing, facility development and advisory services to highly rated hospitals and health systems throughout the United States. In addition, from time to time, we make secured and unsecured loans and other investments relating to seniors housing and healthcare operators or properties.

We conduct our operations through three reportable business segments: triple-net leased properties; senior living operations; and MOB operations. See “Note 20—Segment Information” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

As of December 31, 2014, our consolidated portfolio included 100% ownership interests in 1,383 properties and controlling joint venture interests in 50 properties, and we had non-controlling ownership interests in 51 properties through investments in unconsolidated entities. Through Lillibridge and PMBRES, we provided management and leasing services to third parties with respect to 75 MOBs as of December 31, 2014.

We aim to enhance shareholder value by delivering consistent, superior total returns through a strategy of:

(1) generating reliable and growing cash flows; (2) maintaining a balanced, diversified portfolio of high-quality assets; and (3) preserving our financial strength, flexibility and liquidity.

Our ability to access capital in a timely and cost-effective manner is critical to the success of our business strategy because it affects our ability to satisfy existing obligations, including the repayment of maturing indebtedness, and to make future investments. Factors such as general market conditions, interest rates, credit ratings on our securities, expectations of our potential future earnings and cash distributions, and the trading price of our common stock that are beyond our control and fluctuate over time all impact our access to and cost of external capital. For that reason, we generally attempt to match the long-term duration of our investments in real property with long-term financing through the issuance of shares of our common stock or the incurrence of long-term fixed rate debt. At December 31, 2014, 21.9% of our consolidated debt (excluding debt related to properties classified as held for sale) was variable rate debt.

2014 Highlights and Other Recent Developments

In 2014, we paid an annual cash dividend on our common stock of \$2.965 per share.

During 2014, we made investments totaling approximately \$2.4 billion in seniors housing and healthcare assets, including 29 seniors housing communities located in Canada that we acquired from Holiday Retirement (the “Holiday Canada Acquisition”), three high-quality private hospitals located in the United Kingdom and a \$425.0 million secured mezzanine loan investment that has a blended annual interest rate of 8.1% and has contractual maturities ranging between 2016 and 2019.

In January 2015, we acquired publicly traded American Realty Capital Healthcare Trust, Inc. (“HCT”) in a stock and cash transaction (the “HCT Acquisition”), which added 152 properties (some of which are located on the same campus) to our portfolio. We funded the transaction through the issuance of approximately 28.4 million shares of our common stock, 1.1 million limited partnership units that are redeemable for shares of our common stock, cash and the assumption of debt.

In 2015, we made other investments totaling approximately \$320 million, including the acquisition of five triple-net leased properties in the United Kingdom and 12 skilled nursing facilities.

In April 2014, we issued and sold \$700 million aggregate principal amount of senior notes with a weighted average interest rate of 2.75% and a weighted average maturity of seven years.

In September 2014, we issued and sold CAD 650.0 million aggregate principal amount of senior notes, with an effective weighted average interest rate of 3.5% and a weighted average maturity of 6.9 years, on a private placement basis in Canada. We used the net proceeds from the sale to repay a portion of the CAD 791.0 million unsecured term loan we incurred initially to fund the Holiday Canada Acquisition.

In January 2015, we issued and sold \$900 million aggregate principal amount of senior notes, with a weighted average interest rate of 3.8% and a weighted average maturity of 16.7 years, and we issued and sold CAD 250.0 million aggregate principal amount of senior notes, with an interest rate of 3.3% and a maturity of seven years, on a private placement basis in Canada.

Under our “at-the-market” equity offering program, during 2014 and 2015 we issued and sold a total of approximately 7.1 million shares of our common stock at a weighted average price of \$75.18 per share for aggregate net proceeds (after sales agent commissions) of \$528.1 million.

During 2014, we sold 22 properties for \$118.2 million and received loans receivable repayments of \$55.9 million.

In 2015, we sold 17 properties for \$275.1 million, including \$5.5 million of lease termination fees.

As of December 31, 2014, we had re-leased to Kindred, transitioned to new operators or sold 107 of the 108 licensed healthcare assets whose lease terms with Kindred were scheduled to expire on September 30, 2014, and we expect to sell the remaining asset during 2015. See “Triple-Net Lease Expirations.”

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) set forth in the Accounting Standards Codification (“ASC”), as published by the Financial Accounting Standards Board (“FASB”). GAAP requires us to make estimates and assumptions regarding 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 assumptions we believe 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, we may have applied a different accounting treatment, resulting in a different presentation of our financial statements. We periodically reevaluate our estimates and assumptions, and in the event they 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 our net earnings are reduced by the portion of net earnings attributable to noncontrolling interests.

GAAP requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities (“VIEs”). A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity’s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; and (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity’s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. We consolidate our investment in a VIE when we determine that we are its primary beneficiary. We may change our original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affects the characteristics or adequacy of the entity’s equity investments at risk and the disposition of all or a portion of an interest held by the primary beneficiary.

We identify the primary beneficiary of a VIE as the enterprise that has both: (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 the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis.

As it relates to investments in joint ventures, GAAP may preclude consolidation by the sole general partner in certain circumstances based on the type of rights held by the limited partner(s). We assess limited partners' rights and their impact on the presumption of control of the limited partnership by the sole general partner when an investor becomes the sole general partner, and we perform a reassessment when there is a change to the terms or in the exercisability of the rights of the limited partners, the sole general partner increases or decreases its ownership of limited partnership interests, or there is an increase or decrease in the number of outstanding limited partnership interests. We also apply this guidance to managing member interests in limited liability companies.

Business Combinations

We account for acquisitions using the acquisition method and allocate the cost of the businesses acquired among tangible and recognized intangible assets and liabilities based upon their estimated fair values as of the acquisition date. Recognized intangibles primarily include the value of in-place leases, acquired lease contracts, tenant and customer relationships, trade names/trademarks and goodwill. We do not amortize goodwill, which represents the excess of the purchase price paid over the fair value of the net assets of the acquired business and is included in other assets on our Consolidated Balance Sheets.

Our method for allocating the purchase price to acquired investments in real estate requires us to make subjective assessments for determining fair value of the assets acquired and liabilities assumed. This includes determining the value of the buildings, land and improvements, construction in progress, ground leases, tenant improvements, in-place leases, above and/or below market leases, purchase option intangible assets and/or liabilities, and any debt assumed. These estimates require significant judgment and in some cases involve complex calculations. These allocation assessments directly impact our results of operations, as amounts allocated to certain assets and liabilities have different depreciation or amortization lives. In addition, we amortize the value assigned to above and/or below market leases as a component of revenue, unlike in-place leases and other intangibles, which we include in depreciation and amortization in our Consolidated Statements of Income.

We estimate the fair value of buildings acquired on an as-if-vacant basis and depreciate the building value over the estimated remaining life of the building, not to exceed 35 years. We determine the allocated value of other fixed assets, such as site improvements and furniture, fixtures and equipment, based upon the replacement cost and depreciate such value over the assets' estimated remaining useful lives as determined at the applicable acquisition date. We determine the value of land either by considering the sales prices of similar properties in recent transactions or based on internal analysis of recently acquired and existing comparable properties within our portfolio. We generally determine the value of construction in progress based upon the replacement cost. However, for certain acquired properties that are part of a ground-up development, we determine fair value by using the same valuation approach as for all other properties and deducting the estimated cost to complete the development. During the remaining construction period, we capitalize interest expense until the development has reached substantial completion. Construction in progress, including capitalized interest, is not depreciated until the development has reached substantial completion.

The fair value of acquired lease-related intangibles, if any, reflects: (i) the estimated value of any above and/or below market leases, determined by discounting the difference between the estimated market rent and in-place lease rent; and (ii) the estimated value of in-place leases related to the cost to obtain tenants, including leasing commissions, and an estimated value of the absorption period to reflect the value of the rent and recovery costs foregone during a reasonable lease-up period as if the acquired space was vacant. We amortize any acquired lease-related intangibles to revenue or amortization expense over the remaining life of the associated lease plus any assumed bargain renewal periods. If a lease is terminated prior to its stated expiration or not renewed upon expiration, we recognize all unamortized lease-related intangibles associated with that lease in operations at that time.

We estimate the fair value of purchase option intangible assets and liabilities by discounting the difference between the applicable property's acquisition date fair value and an estimate of its future option price. We do not amortize the resulting intangible asset or liability over the term of the lease, but rather adjust the recognized value of the asset or liability upon sale.

We estimate the fair value of tenant or other customer relationships acquired, if any, by considering the nature and extent of existing business relationships with the tenant or customer, growth prospects for developing new business with the tenant or customer, 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 we amortize that value over the expected life of the associated arrangements or leases, including the remaining terms of the related leases and any expected renewal periods. We estimate the fair value of trade names and trademarks using a royalty rate methodology and amortize that value over the estimated useful life of the trade name or trademark.

In connection with a business combination, we may assume rights and obligations under certain lease agreements pursuant to which we become the lessee of a given property. We assume the lease classification previously determined by the prior lessee absent a modification in the assumed lease agreement. We assess assumed operating leases, including ground

leases, to determine whether the lease terms are favorable or unfavorable to us given current market conditions on the acquisition date. To the extent the lease terms are favorable or unfavorable relative to market conditions on the acquisition date, we recognize an intangible asset or liability, as applicable, at fair value and amortize that asset or liability (excluding purchase option intangibles) to interest or rental expense in our Consolidated Statements of Income over the applicable lease term. We include all lease-related intangible assets and liabilities within acquired lease intangibles and accounts payable and other liabilities, respectively, on our Consolidated Balance Sheets. We determine the fair value of loans receivable acquired in connection with a business combination by discounting the estimated future cash flows using current interest rates at which similar loans on the same terms with the same length to maturity would be made to borrowers with similar credit ratings. We do not establish a valuation allowance at the acquisition date because the estimated future cash flows already reflect our judgment regarding their uncertainty. We recognize the difference between the acquisition date fair value and the total expected cash flows as interest income using an effective interest method over the life of the applicable loan. Subsequent to the acquisition date, we evaluate changes regarding the uncertainty of future cash flows and the need for a valuation allowance, as appropriate.

We estimate the fair value of noncontrolling interests assumed consistent with the manner in which we value all of the underlying assets and liabilities.

We base the initial carrying value of investments in unconsolidated entities on the fair value of the assets at the time we acquired the joint venture interest. We estimate fair values for our equity method investments based on discounted cash flow models that include all estimated cash inflows and outflows over a specified holding period and, where applicable, any estimated debt premiums or discounts. The capitalization rates, discount rates and credit spreads we use in these models are based upon assumptions that we believe to be within a reasonable range of current market rates for the respective investments.

We generally amortize any difference between our cost basis and the basis reflected at the joint venture level over the lives of the related assets and liabilities and include that amortization in our share of income or loss from unconsolidated entities. For earnings of equity method investments with pro rata distribution allocations, net income or loss is allocated between the partners in the joint venture based on their respective stated ownership percentages. In other instances, net income or loss is allocated between the partners in the joint venture based on the hypothetical liquidation at book value method.

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 we approximate based on the rate at which we would expect to incur a replacement instrument on the date of acquisition, and recognize any fair value adjustments related to long-term debt as effective yield adjustments over the remaining term of the instrument.

Impairment of Long-Lived and Intangible Assets

We periodically evaluate our long-lived assets, primarily consisting of investments in real estate, for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. In performing this evaluation, we consider market conditions and our current intentions with respect to holding or disposing of the asset. 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. We recognize an impairment loss at the time we make any such determination.

If impairment indicators arise with respect to intangible assets with finite useful lives, we evaluate impairment by comparing the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then we estimate the fair value of the asset and compare the estimated fair value to the intangible asset's carrying value. We recognize any shortfall from carrying value as an impairment loss in the current period.

We evaluate our investments in unconsolidated entities for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying value of our investment may exceed its fair value. If we determine that a decline in the fair value of our investment in an unconsolidated entity is other-than-temporary, and if such reduced fair value is below the carrying value, we record an impairment. The determination of the fair value of investments in unconsolidated entities involves significant judgment, and our estimates consider all available

evidence, including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends and other relevant factors.

We test goodwill for impairment at least annually, and more frequently if indicators arise. We first assess qualitative factors, such as current macroeconomic conditions, state of the equity and capital markets and our overall financial and operating performance, to determine the likelihood that the fair value of a reporting unit is less than its carrying amount. If we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we proceed with the two-step approach to evaluating impairment. First, we estimate the fair value of the reporting unit and compare it to the

reporting unit's carrying value. If the carrying value exceeds fair value, we proceed with the second step, which requires us to assign the fair value of the reporting unit to all of the assets and liabilities of the reporting unit as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment. We recognize an impairment loss to the extent the carrying value of goodwill exceeds the implied value in the current period.

Estimates of fair value used in our evaluation of goodwill, investments in real estate and intangible assets are based upon discounted future cash flow projections or other acceptable valuation techniques that are based, in turn, upon various estimates and assumptions, such as revenue and expense growth rates, capitalization rates, discount rates or other available market data. Our ability to accurately predict future operating results and cash flows and to estimate and allocate fair values impacts the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

Loans Receivable

We record loans receivable, other than those acquired in connection with a business combination, on our Consolidated Balance Sheets (either in secured loans receivable and investments, net or other assets, in the case of unsecured loans receivable) at the unpaid principal balance, net of any deferred origination fees, purchase discounts or premiums and valuation allowances. We amortize net deferred origination fees, which are comprised of loan fees collected from the borrower net of certain direct costs, and purchase discounts or premiums over the contractual life of the loan using the effective interest method and immediately recognize in income any unamortized balances if the loan is repaid before its contractual maturity.

We regularly evaluate the collectibility of loans receivable based on factors such as corporate and facility-level financial and operational reports, compliance with financial covenants set forth in the applicable loan agreement, the financial strength of the borrower and any guarantor, the payment history of the borrower and current economic conditions. If our evaluation of these factors indicates it is probable that we will be unable to collect all amounts due under the terms of the applicable loan agreement, we provide a reserve against the portion of the receivable that we estimate may not be collected.

Fair Value

Fair value is a market-based measurement, not an entity-specific measurement, and we determine fair value based on the assumptions that we expect market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, GAAP 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 for identical assets or liabilities in active markets that we have the ability to access. Level two inputs consist of inputs other than quoted prices included in level one that are directly or indirectly observable for the asset or liability. Level two inputs may include quoted prices for similar assets and liabilities in active markets and other inputs for the asset or liability that are observable at commonly quoted intervals, such as interest rates, foreign exchange rates and yield curves. Level three inputs are unobservable inputs for the asset or liability, which typically are based on our own assumptions, as there is little, if any, related market activity. If the determination of the fair value measurement is based on inputs from different levels of the hierarchy, the level within which the entire fair value measurement falls is the lowest level input that is significant to the fair value measurement in its entirety. If the volume and level of market activity for an asset or liability has decreased significantly relative 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 a transaction for an asset or liability is not orderly, little, if any, weight is placed 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.

Revenue Recognition

Triple-Net Leased Properties and MOB Operations

Certain of our triple-net leases and most of our MOB leases provide for periodic and determinable increases in base rent. We recognize base rental revenues under these leases on a straight-line basis over the applicable lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a straight-line rent receivable that is included in other assets on our Consolidated Balance Sheets.

Certain of our leases provide for periodic increases in base rent only if certain revenue parameters or other substantive contingencies are met. We recognize the increased rental revenue under these leases as the related parameters or contingencies are met, rather than on a straight-line basis over the applicable lease term.

Senior Living Operations

We recognize resident fees and services, other than move-in fees, monthly as services are provided. We recognize move-in fees on a straight-line basis over the average resident stay. Our lease agreements with residents generally have terms of 12 to 18 months and are cancelable by the resident upon 30 days' notice.

Other

We recognize interest income from loans and investments, including discounts and premiums, using the effective interest method when collectibility is reasonably assured. We apply the effective interest method on a loan-by-loan basis and recognize discounts and premiums as yield adjustments over the related loan term. We recognize interest income on an impaired loan to the extent our estimate of the fair value of the collateral is sufficient to support the balance of the loan, other receivables and all related accrued interest. When the balance of the loan, other receivables and all related accrued interest is equal to our estimate of the fair value of the collateral, we recognize interest income on a cash basis. We provide a reserve against an impaired loan to the extent our total investment in the loan exceeds our estimate of the fair value of the loan collateral.

We recognize income from rent, lease termination fees, development services, management advisory services, and all other income when all of the following criteria are met in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin 104: (i) the applicable 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.

Allowances

We assess the collectibility of our rent receivables, including straight-line rent receivables. We base our assessment of the collectibility of rent receivables (other than straight-line rent receivables) on several factors, including, among other things, payment history, the financial strength of the tenant and any guarantors, the value of the underlying collateral, if any, and current economic conditions. If our evaluation of these factors indicates it is probable that we will be unable to recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. We also base our assessment of the collectibility of straight-line rent receivables on several factors, including, among other things, the financial strength of the tenant and any guarantors, the historical operations and operating trends of the property, the historical payment pattern of the tenant and the type of property. If our evaluation of these factors indicates it is probable that we will be unable to receive the rent payments due in the future, we provide a reserve against the recognized straight-line rent receivable asset for the portion, up to its full value, that we estimate may not be recovered. If we change our assumptions or estimates regarding the collectibility of future rent payments required by a lease, we may adjust our reserve to increase or reduce the rental revenue recognized in the period we make such change in our assumptions or estimates.

Federal Income Tax

We have elected to be treated as a REIT under the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), for every year beginning with the year ended December 31, 1999. Accordingly, we generally are not subject to federal income tax on net income that we distribute to our stockholders, provided that we continue to qualify as a REIT. However, with respect to certain of our subsidiaries that have elected to be treated as "taxable REIT subsidiaries," we record income tax expense or benefit, as those entities are subject to federal income tax similar to regular corporations.

We account for deferred income taxes using the asset and liability method and recognize deferred tax assets and liabilities 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. Any increase or decrease in the deferred tax liability that results from a change in circumstances, and that causes us to change our judgment about expected future tax consequences of events, is included in the tax provision when such changes occur. 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. Any increase or decrease in the valuation allowance that results

from a change in circumstances, and that causes us to change our judgment about the realizability of the related deferred tax asset, is included in the tax provision when such changes occur.

Recently Issued or Adopted Accounting Standards

In 2014, the FASB issued Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”), which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is defined as: (1) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity’s operations and financial results; or (2) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. The application of this guidance is prospective from the date of adoption and applies only to disposals (or new classifications to held for sale) that have not been reported as discontinued operations in our previously issued financial statements. We adopted ASU 2014-08 during the quarter ended March 31, 2014.

In 2014, the FASB also issued Accounting Standards Update 2014-09, Revenue From Contracts With Customers (“ASU 2014-09”), which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. ASU 2014-09 is effective for us beginning January 1, 2017. We are continuing to evaluate this guidance; however, we do not expect its adoption to have a significant impact on our consolidated financial statements, as a substantial portion of our revenue consists of rental income from leasing arrangements, which are specifically excluded from ASU 2014-09.

Results of Operations

As of December 31, 2014, we operated through three reportable business segments: triple-net leased properties; senior living operations and MOB operations. In our triple-net leased properties segment, we invest in seniors housing and healthcare properties throughout the United States and the United Kingdom and lease our properties to healthcare operating companies under “triple-net” or “absolute-net” leases that obligate the tenants to pay all property-related expenses. In our senior living operations segment, we invest in seniors housing communities throughout the United States and Canada and engage independent operators, such as Atria and Sunrise, to manage those communities. In our MOB operations segment, we primarily acquire, own, develop, lease, and manage MOBs. Information provided for “all other” includes income from loans and investments and other miscellaneous income and various corporate-level expenses not directly attributable to our three reportable business segments. Assets included in “all other” consist primarily of corporate assets, including cash, restricted cash, deferred financing costs, loans receivable and miscellaneous accounts receivable.

Years Ended December 31, 2014 and 2013

The table below shows our results of operations for the years ended December 31, 2014 and 2013 and the effect of changes in those results from period to period on our net income attributable to common stockholders.

	For the Year Ended		Increase (Decrease) to Net		
	December 31,		Income		
	2014	2013	\$	%	
	(Dollars in thousands)				
Segment NOI:					
Triple-Net Leased Properties	\$974,942	\$881,745	\$93,197	10.6	%
Senior Living Operations	516,395	449,321	67,074	14.9	
MOB Operations	310,513	300,921	9,592	3.2	
All Other	57,439	59,471	(2,032)	(3.4))
Total segment NOI	1,859,289	1,691,458	167,831	9.9	
Interest and other income	4,267	2,047	2,220	> 100	
Interest expense	(376,842)	(334,909)	(41,933)	(12.5))
Depreciation and amortization	(826,911)	(722,075)	(104,836)	(14.5))
General, administrative and professional fees	(121,746)	(115,106)	(6,640)	(5.8))
Loss on extinguishment of debt, net	(5,564)	(1,201)	(4,363)	(> 100))
Merger-related expenses and deal costs	(45,051)	(21,634)	(23,417)	(> 100))
Other	(38,925)	(18,732)	(20,193)	(> 100))
Income before loss from unconsolidated entities, income taxes, discontinued operations, real estate dispositions and noncontrolling interest	448,517	479,848	(31,331)	(6.5))
Loss from unconsolidated entities	(139)	(508)	369	72.6)
Income tax benefit	8,732	11,828	(3,096)	(26.2))
Income from continuing operations	457,110	491,168	(34,058)	(6.9))
Discontinued operations	2,106	(36,279)	38,385	> 100)
Gain on real estate dispositions	17,970	—	17,970	nm)
Net income	477,186	454,889	22,297	4.9)
Net income attributable to noncontrolling interest	1,419	1,380	(39)	(2.8))
Net income attributable to common stockholders	\$475,767	\$453,509	22,258	4.9)

nm—not meaningful

Segment NOI—Triple-Net Leased Properties

NOI for our triple-net leased properties reportable business segment equals the rental income and other services revenue earned from our triple-net assets. We incur no direct operating expenses for this segment.

The following table summarizes results of continuing operations in our triple-net leased properties reportable business segment:

	For the Year Ended		Increase (Decrease) to Segment		
	December 31,		NOI		
	2014	2013	\$	%	
	(Dollars in thousands)				
Segment NOI—Triple-Net Leased Properties:					
Rental income	\$970,377	\$877,276	\$93,101	10.6	%
Other services revenue	4,565	4,469	96	2.1	
Segment NOI	\$974,942	\$881,745	93,197	10.6	

Triple-net leased properties segment NOI increased in 2014 over the prior year primarily due to rent from the properties we acquired during 2014 and 2013, contractual escalations in rent pursuant to the terms of our leases, and increases in base and other rent under certain of our leases.

In our triple-net leased properties segment, our revenues generally consist of fixed rental amounts (subject to annual contractual escalations) received from our tenants in accordance with the applicable lease terms and do not vary based on the underlying operating performance of the properties. Therefore, while occupancy rates may affect the profitability of our tenants' operations, they do not have a direct impact on our revenues or financial results. The following table sets forth average continuing occupancy rates related to the triple-net leased properties we owned at December 31, 2014 for the trailing 12 months ended September 30, 2014 (which is the most recent information available to us from our tenants) and average continuing occupancy rates related to the triple-net leased properties we owned at December 31, 2013 for the trailing 12 months ended September 30, 2013.

	Number of Properties at December 31, 2014 (1)	Average Occupancy for the Trailing 12 Months Ended September 30, 2014 (1)		Number of Properties at December 31, 2013 (1)	Average Occupancy for the Trailing 12 Months Ended September 30, 2013 (1)	
Seniors Housing Communities	439	88.3	%	412	87.1	%
Skilled Nursing Facilities	242	80.1		242	80.8	
Hospitals	46	56.4		46	56.6	

Excludes properties included in discontinued operations during 2014 and properties classified as held for sale as of December 31, 2014, non-stabilized properties, properties owned through investments in unconsolidated entities and (1)certain properties for which we do not receive occupancy information. Also excludes properties acquired during the years ended December 31, 2014 and 2013, respectively, and properties that transitioned operators for which we do not have eight full quarters of results subsequent to the transition.

The following table compares results of continuing operations for our 829 same-store triple-net leased properties. Throughout this discussion, "same-store" refers to properties that we owned for the full period in both comparison periods.

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2014	2013	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—Triple-Net Leased Properties:					
Rental income	\$ 876,846	\$ 846,552	\$ 30,294	3.6	%
Other services revenue	4,565	4,469	96	2.1	
Segment NOI	\$ 881,411	\$ 851,021	30,390	3.6	

Segment NOI—Senior Living Operations

The following table summarizes results of continuing operations in our senior living operations reportable business segment:

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2014	2013	\$	%	
(Dollars in thousands)					
Segment NOI—Senior Living Operations:					
Total revenues	\$ 1,552,951	\$ 1,406,005	\$ 146,946	10.5	%
Less:					
Property-level operating expenses	(1,036,556)	(956,684)	(79,872)	(8.3)	
Segment NOI	\$ 516,395	\$ 449,321	67,074	14.9	

Revenues attributed to our senior living operations segment consist of resident fees and services, which include all amounts earned from residents at our seniors housing communities, such as rental fees related to resident leases,

extended

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health care fees and other ancillary service income. Our senior living operations segment revenues increased in 2014 over the prior year primarily due to the Holiday Canada Acquisition and other seniors housing communities we acquired during 2014 and 2013.

Property-level operating expenses related to our senior living operations segment include labor, food, utilities, marketing, management and other costs of operating the properties. Property-level operating expenses also increased year over year primarily due to the acquired properties described above.

The following table compares results of continuing operations for our 220 same-store senior living operating communities.

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2014	2013	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—Senior Living Operations:					
Total revenues	\$1,391,869	\$1,363,696	\$28,173	2.1	%
Less:					
Property-level operating expenses	(942,169)	(929,968)	(12,201)	(1.3)
Segment NOI	\$449,700	\$433,728	15,972	3.7	

The following table sets forth average unit occupancy rates and the average monthly revenue per occupied room related to continuing operations in our senior living operations segment for the years ended December 31, 2014 and 2013:

	Number of Properties at December 31,		Average Unit Occupancy for the Year Ended December 31,		Average Monthly Revenue Per Occupied Room for the Year Ended December 31,	
	2014	2013	2014	2013	2014	2013
Total seniors housing communities	270	237	91.1	% 91.1	% \$5,407	\$5,470
Same-store seniors housing communities	220	220	91.1	91.2	5,653	5,533
Segment NOI—MOB Operations						

The following table summarizes results of continuing operations in our MOB operations reportable business segment:

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2014	2013	\$	%	
(Dollars in thousands)					
Segment NOI—MOB Operations:					
Rental income	\$463,618	\$450,107	\$13,511	3.0	%
Medical office building services revenue	22,529	12,077	10,452	86.5	
Total revenues	486,147	462,184	23,963	5.2	
Less:					
Property-level operating expenses	(158,542)	(152,948)	(5,594)	(3.7)
Medical office building services costs	(17,092)	(8,315)	(8,777)	(105.6)
Segment NOI	\$310,513	\$300,921	9,592	3.2	

The increase in our MOB operations segment rental income in 2014 over the prior year is attributed primarily to the MOBs we acquired during 2014 and 2013 and slightly higher base rents. The increase in our MOB property-level operating expenses is due primarily to those acquired MOBs and increases in utilities, snow removal, payroll and insurance expenses, partially offset by decreases in operating costs resulting from expense controls.

Medical office building services revenue and costs both increased in 2014 over the prior year primarily due to increased construction activity during 2014 compared to 2013.

The following table compares results of continuing operations for our 295 same-store MOBs.

	For the Year Ended		Increase (Decrease) to		
	December 31,		Segment NOI		
	2014	2013	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—MOB Operations:					
Rental income	\$440,463	\$435,494	\$4,969	1.1	%
Less:					
Property-level operating expenses	(150,282)	(147,693)	(2,589)	(1.8))
Segment NOI	\$290,181	\$287,801	2,380	0.8	

The following table sets forth occupancy rates and the annualized average rent per occupied square foot related to continuing operations in our MOB operations segment at and for the years ended December 31, 2014 and 2013:

	Number of		Occupancy at		Annualized Average Rent	
	Properties at		December 31,		Per Occupied Square Foot	
	December 31,		December 31,		for the Year Ended Ended	
	2014	2013	2014	2013	2014	2013
Total MOBs	309	307	90.1	% 90.2	% \$31	\$29
Same-store MOBs	295	295	90.1	90.1	30	29
Segment NOI—All Other						

All other NOI consists solely of income from loans and investments. Income from loans and investments decreased in 2014 over the prior year due primarily to final repayments and sales of portions of certain loans receivable throughout 2013.

Interest Expense

The \$38.2 million increase in total interest expense, including interest allocated to discontinued operations of \$1.7 million and \$5.5 million for the years ended December 31, 2014 and 2013, respectively, is attributed primarily to \$50.9 million of additional interest due to higher debt balances, partially offset by a \$15.6 million reduction in interest due to lower effective interest rates, including the amortization of any fair value adjustments. Our effective interest rate was 3.7% for 2014, compared to 3.8% for 2013.

Depreciation and Amortization

Depreciation and amortization expense increased \$104.8 million in 2014 primarily due to real estate acquisitions we made in 2013 and 2014.

General, Administrative and Professional Fees

General, administrative and professional fees increased \$6.6 million in 2014 primarily due to our continued organizational growth.

Loss on Extinguishment of Debt, Net

The loss on extinguishment of debt, net in 2014 resulted primarily from various debt repayments. The loss on extinguishment of debt, net in 2013 resulted primarily from the write-off of unamortized deferred financing fees as a result of replacing our previous \$2.0 billion unsecured revolving credit facility with a new \$3.0 billion unsecured credit facility and the repayment of certain mortgage debt.

Merger-Related Expenses and Deal Costs

Merger-related expenses and deal costs in both years consist of transition, integration, deal and severance-related expenses primarily related to pending and consummated transactions required by GAAP to be expensed rather than capitalized into the asset value. The \$23.4 million increase in merger-related expenses and deal costs in 2014 over the prior year is primarily due to increased 2014 investment activity.

Other

Other primarily includes building rent expense paid to lease certain of our senior living operating communities, as well as certain unreimbursable expenses related to our triple-net leased portfolio. For the year ended December 31, 2014, other also includes expenses related to the re-audit and re-review of our historical financial statements.

Income Tax Benefit

Income tax benefit for 2014 was due primarily to the income tax benefit of ordinary losses and restructuring related to certain taxable REIT subsidiaries (“TRS” or “TRS entities”). Income tax benefit for 2013 was due primarily to the release of valuation allowances against certain deferred tax assets of one of our TRS entities.

Discontinued Operations

Discontinued operations for 2014 reflects activity related to 17 properties, 12 of which were sold during 2014, resulting in a net gain of \$1.2 million, and five of which were classified as held for sale as of December 31, 2014. Discontinued operations for 2013 reflects activity related to 39 properties, 22 of which were sold during 2013, resulting in a net gain of \$3.6 million.

Gain on Real Estate Dispositions

The gain on real estate dispositions in 2014 resulted primarily from the sale of ten properties that are not classified as discontinued operations in accordance with ASU 2014-08, resulting in a net gain of \$18.0 million. Gains on real estate dispositions in 2013 are classified in discontinued operations.

Net Income/Loss Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest for 2014 represents our partners’ joint venture interests in 51 properties. Net loss attributable to noncontrolling interest for 2013 represents our partners’ joint venture interests in 58 properties.

Years Ended December 31, 2013 and 2012

The table below shows our results of operations for the years ended December 31, 2013 and 2012 and the effect of changes in those results from period to period on our net income attributable to common stockholders.

	For the Year Ended		Increase (Decrease) to Net		
	December 31,		Income		
	2013	2012	\$	%	
(Dollars in thousands)					
Segment NOI:					
Triple-Net Leased Properties	\$881,745	\$824,320	\$57,425	7.0	%
Senior Living Operations	449,321	386,102	63,219	16.4	
MOB Operations	300,921	241,869	59,052	24.4	
All Other	59,471	39,913	19,558	49.0	
Total segment NOI	1,691,458	1,492,204	199,254	13.4	
Interest and other income	2,047	1,106	941	85.1	
Interest expense	(334,909)	(288,717)	(46,192)	(16.0))
Depreciation and amortization	(722,075)	(714,967)	(7,108)	(1.0))
General, administrative and professional fees	(115,106)	(98,510)	(16,596)	(16.8))
Loss on extinguishment of debt, net	(1,201)	(37,640)	36,439	96.8	
Merger-related expenses and deal costs	(21,634)	(63,183)	41,549	65.8	
Other	(18,732)	(6,940)	(11,792)	(> 100)	
Income before (loss) income from unconsolidated entities, income taxes, discontinued operations and noncontrolling interest	479,848	283,353	196,495	69.3	
(Loss) income from unconsolidated entities	(508)	18,154	(18,662)	(> 100)	
Income tax benefit	11,828	6,282	5,546	88.3	
Income from continuing operations	491,168	307,789	183,379	59.6	
Discontinued operations	(36,279)	53,986	(90,265)	(> 100)	
Net income	454,889	361,775	93,114	25.7	
Net income (loss) attributable to noncontrolling interest, net of tax	1,380	(1,025)	(2,405)	(> 100)	
Net income attributable to common stockholders	\$453,509	\$362,800	95,519	26.3	
Segment NOI—Triple-Net Leased Properties					

The following table summarizes results of continuing operations in our triple-net leased properties reportable business segment:

	For the Year Ended		Increase (Decrease) to Segment		
	December 31,		NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Segment NOI—Triple-Net Leased Properties:					
Rental income	\$877,276	\$819,882	\$57,394	7.0	%
Other services revenue	4,469	4,438	31	0.7	
Segment NOI	\$881,745	\$824,320	57,425	7.0	

Triple-net leased properties segment NOI increased in 2013 over the prior year primarily due to contractual rent escalations pursuant to the terms of our leases, increases in base and other rent under certain of our existing triple-net leases and rent from the properties we acquired during 2013 and 2012.

The following table compares results of continuing operations for our 807 same-store triple-net leased properties.

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—Triple-Net Leased Properties:					
Rental income	\$823,380	\$806,267	\$17,113	2.1	%
Other services revenue	4,469	4,438	31	0.7	
Segment NOI	\$827,849	\$810,705	17,144	2.1	

Segment NOI—Senior Living Operations

The following table summarizes results of continuing operations in our senior living operations reportable business segment:

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Segment NOI—Senior Living Operations:					
Total revenues	\$1,406,005	\$1,227,124	\$178,881	14.6	%
Less:					
Property-level operating expenses	(956,684)	(841,022)	(115,662)	(13.8)	
Segment NOI	\$449,321	\$386,102	63,219	16.4	

Our senior living operations segment revenues increased in 2013 over the prior year primarily due to the seniors housing communities we acquired during 2013 and 2012, including 16 seniors housing communities managed by Sunrise that we acquired in May 2012 (the “Sunrise-Managed 16 Communities”) and 25 seniors housing communities whose operations we transitioned to Atria at the time of closing, and higher average unit occupancy rates and higher average monthly revenue per occupied room in our communities.

Property-level operating expenses increased in 2013 over the prior year primarily due to the acquired properties described above, increases in salaries, taxes and insurance costs and higher management fees as a result of increased revenues.

The following table compares results of continuing operations for our 195 same-store senior living operating communities.

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—Senior Living Operations:					
Total revenues	\$1,215,185	\$1,158,422	\$56,763	4.9	%
Less:					
Property-level operating expenses	(830,076)	(793,828)	(36,248)	(4.6)	
Segment NOI	\$385,109	\$364,594	20,515	5.6	

Same-store senior living operations NOI increased in 2013 over the prior year primarily due to higher average unit occupancy rates and higher average monthly revenue per occupied room, partially offset by increases in salaries, taxes and insurance costs and higher management fees as a result of increased revenues.

The following table sets forth average unit occupancy rates and the average monthly revenue per occupied room related to continuing operations in our senior living operations segment for the years ended December 31, 2013 and 2012:

	Number of Properties at December 31,		Average Unit Occupancy for the Year Ended December 31,		Average Monthly Revenue Per Occupied Room for the Year Ended December 31,	
	2013	2012	2013	2012	2013	2012
Total seniors housing communities	237	220	91.1	% 89.8	% \$5,470	\$5,349
Same-store seniors housing communities	195	195	91.3	90.0	5,557	5,356
Segment NOI—MOB Operations						

The following table summarizes results of continuing operations in our MOB operations reportable business segment:

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Segment NOI—MOB Operations:					
Rental income	\$450,107	\$360,849	\$89,258	24.7	%
Medical office building services revenue	12,077	16,303	(4,226)	(25.9))
Total revenues	462,184	377,152	85,032	22.5	
Less:					
Property-level operating expenses	(152,948)	(125,400)	(27,548)	(22.0))
Medical office building services costs	(8,315)	(9,883)	1,568	15.9)
Segment NOI	\$300,921	\$241,869	59,052	24.4	

The increases in our MOB operations segment revenues and property-level operating expenses in 2013 over the prior year are primarily due to our acquisition of Cogdell Spencer Inc. ("Cogdell") in April 2012, the August 2012 and March 2013 acquisitions of the controlling interests in 38 MOB's that we had previously accounted for as investments in unconsolidated entities and other MOB's we acquired during 2013 and 2012.

Medical office building services revenue and costs both decreased year over year primarily due to a reduction in construction activity during 2013 compared to 2012 and our acquisitions of the controlling interests in 38 MOB's that we had previously accounted for as investments in unconsolidated entities, which reduced our management fee revenue.

The following table compares results of continuing operations for our 184 same-store MOB's.

	For the Year Ended December 31,		Increase (Decrease) to Segment NOI		
	2013	2012	\$	%	
(Dollars in thousands)					
Same-Store Segment NOI—MOB Operations:					
Rental income	\$257,085	\$256,684	\$401	0.2	%
Less:					
Property-level operating expenses	(85,219)	(86,890)	1,671	1.9)
Segment NOI	\$171,866	\$169,794	2,072	1.2	

Same-store MOB operations NOI increased primarily due to lower expenses as a result of savings in contract cleaning, real estate taxes, repairs and maintenance, and management fees throughout 2013.

The following table sets forth occupancy rates and the annualized average rent per occupied square foot related to continuing operations in our MOB operations segment at and for the years ended December 31, 2013 and 2012:

	Number of Properties at December 31,		Occupancy at December 31,		Annualized Average Rent Per Occupied Square Foot for the Year Ended December 31,	
	2013	2012	2013	2012	2013	2012
Total MOBs	309	298	90.2	% 90.5	% \$29	\$29
Same-store MOBs	184	184	88.8	89.6	30	30
Segment NOI—All Other						

All other NOI consists solely of income from loans and investments. Income from loans and investments increased in 2013 over the prior year due primarily to \$446.0 million aggregate amount of secured loans and other investments we made in December 2012 and thereafter, which had a weighted average effective interest rate of 9.3% at issuance, partially offset by final repayments on and the sales of portions of certain loans receivable throughout 2013.

Interest Expense

The \$38.4 million increase in total interest expense, including interest allocated to discontinued operations of \$5.5 million and \$13.3 million for the years ended December 31, 2013 and 2012, respectively, is attributed primarily to \$55.3 million of additional interest due to higher debt balances, partially offset by a \$14.8 million reduction in interest due to lower effective interest rates, including the amortization of any fair value adjustments. Our effective interest rate, excluding activity related to our capital leases in 2012, was 3.8% for 2013, as compared to 4.0% for 2012.

General, Administrative and Professional Fees

General, administrative and professional fees increased in 2013 primarily due to our continued organizational growth, as a result of the Cogdell acquisition and subsequent thereto.

Loss on Extinguishment of Debt, Net

The loss on extinguishment of debt, net in 2013 resulted primarily from the write-off of unamortized deferred financing fees as a result of replacing our previous \$2.0 billion unsecured revolving credit facility with a new \$3.0 billion unsecured credit facility and the repayment of certain mortgage debt. The loss on extinguishment of debt, net in 2012 resulted primarily from our redemption in March 2012 of all \$200.0 million principal amount outstanding of our 6½% senior notes due 2016 and our redemption in May 2012 of all \$225.0 million principal amount then outstanding of our 6¾% senior notes due 2017, partially offset by gains recognized on the repayment of certain mortgage debt.

Merger-Related Expenses and Deal Costs

Merger-related expenses and deal costs in both years consist of transition and integration expenses related to consummated transactions and deal costs required by GAAP to be expensed rather than capitalized into the asset value. The \$41.5 million decrease in merger-related expenses and deal costs in 2013 over the prior year reflects lower transition and integration costs attributable to a decline in investment activity in 2013 compared to 2012.

Other

Other consists primarily of building rent expense paid to lease certain of our senior living operating communities. Certain of these leasing arrangements were acquired in late December 2012.

Loss/Income from Unconsolidated Entities

Loss/income from unconsolidated entities in 2013 and 2012 relates to our interests in joint ventures that we account for under the equity method of accounting. Income from unconsolidated entities for the year ended December 31, 2012 is attributed primarily to a gain of \$16.6 million as a result of the re-measurement of equity interest upon our acquisition of the controlling interests (ranging from 80% to 95%) in 36 MOBs that we previously accounted for as investments in unconsolidated entities. Since the acquisition date, operations relating to these properties have been consolidated in our Consolidated Statements of Income. As of December 31, 2013, we had ownership interests ranging between 5% and 25% in joint ventures with respect to 18 MOBs, 20 seniors housing communities and 14 skilled nursing facilities, and we had a 34% ownership interest in Atria, which we acquired in late December 2012.

Income Tax Benefit

Income tax benefit for 2013 was due primarily to the release of valuation allowances against certain deferred tax assets of one of our TRS entities. Income tax benefit for 2012 was due primarily to the income tax benefit of ordinary losses related to our TRS entities, partially offset by a valuation allowance recorded against certain deferred tax assets of one of our other TRS entities.

Discontinued Operations

Discontinued operations for 2013 reflects activity related to 39 properties, 22 of which were sold during 2013, resulting in a net gain of \$3.6 million. Discontinued operations for 2012 reflects activity related to 82 properties, 43 of which were sold during 2012, resulting in a net gain of \$81.0 million.

Net Income/Loss Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest for 2013 represents our partners' joint venture interests in 58 properties. Net loss attributable to noncontrolling interest for 2012 represents our partners' joint venture interests in 57 properties.

Non-GAAP Financial Measures

We believe that net income, as defined by GAAP, is the most appropriate earnings measurement. However, we consider certain non-GAAP financial measures to be useful supplemental measures of our operating performance. A non-GAAP financial measure is a measure of historical or future financial performance, financial position or cash flows that excludes or includes amounts that are not so excluded from or included in the most directly comparable measure calculated and presented in accordance with GAAP. Described below are the non-GAAP financial measures used by management to evaluate our operating performance and that we consider most useful to investors, together with reconciliations of these measures to the most directly comparable GAAP measures.

The non-GAAP financial measures we present in this Annual Report on Form 10-K may not be comparable to those presented by other real estate companies due to the fact that not all real estate companies use the same definitions. You should not consider these measures 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 these measures necessarily indicative of sufficient cash flow to fund all of our needs. In order to facilitate a clear understanding of our consolidated historical operating results, you should examine these measures in conjunction with net income as presented in our Consolidated Financial Statements and other financial data included elsewhere in this Annual Report on Form 10-K.

Funds From Operations and Normalized Funds From Operations

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. However, since real estate values historically have risen or fallen with market conditions, many industry investors deem presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. For that reason, we consider Funds From Operations ("FFO") and normalized FFO to be appropriate measures of operating performance of an equity REIT. In particular, we believe that normalized FFO is useful because it allows investors, analysts and our management to compare our operating performance to the operating performance of other real estate companies and between periods on a consistent basis without having to account for differences caused by unanticipated items and other events such as transactions and litigation. In some cases, we provide information about identified non-cash components of FFO and normalized FFO because it allows investors, analysts and our management to assess the impact of those items on our financial results.

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, including gain on re-measurement of equity method investments, and impairment write-downs of depreciable real estate, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect FFO on the same basis. We define normalized FFO as FFO excluding the following income and expense items (which may be recurring in nature): (a) merger-related costs and expenses, including amortization of intangibles, transition and integration expenses, and deal costs and expenses, including expenses and recoveries relating to our acquisition lawsuits; (b) 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, make-whole payments,

penalties or premiums incurred as a result of early retirement or payment of our debt; (c) the non-cash effect of income tax benefits or expenses and derivative transactions that have non-cash mark-to-market impacts on our Consolidated Statements of Income; (d) the impact of future acquisitions, divestitures (including pursuant to tenant options to purchase) and

capital transactions; (e) the financial impact of contingent consideration, severance-related costs, charitable donations made to the Ventas Charitable Foundation, gains and losses for non-operational foreign currency hedge agreements and changes in the fair value of financial instruments; and (f) expenses related to the re-audit and re-review in 2014 of our historical financial statements and related matters.

The following table summarizes our FFO and normalized FFO for each of the five years ended December 31, 2014. Our normalized FFO for the year ended December 31, 2014 increased over the prior year due primarily to our 2014 and 2013 investments, net of capital costs, and same-store growth across our portfolio of properties, partially offset by higher general and administrative expenses and loan repayments since January 1, 2013.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Net income attributable to common stockholders	\$475,767	\$453,509	\$362,800	\$364,493	\$246,167
Adjustments:					
Real estate depreciation and amortization	820,344	716,412	710,544	442,046	197,650
Real estate depreciation related to noncontrolling interest	(10,314)	(10,512)	(8,503)	(3,471)	(6,217)
Real estate depreciation related to unconsolidated entities	5,792	6,543	7,516	6,552	2,367
Gain on re-measurement of equity interest upon acquisition, net	—	(1,241)	(16,645)	—	—
Gain on real estate dispositions	(17,970)	—	—	—	—
Discontinued operations:					
Gain on real estate dispositions	(1,494)	(4,059)	(80,952)	—	(25,241)
Depreciation on real estate assets	1,555	47,806	49,807	15,231	6,780
FFO	1,273,680	1,208,458	1,024,567	824,851	421,506
Adjustments:					
Litigation proceeds, net	—	—	—	(202,259)	—
Change in fair value of financial instruments	5,121	449	99	2,959	—
Income tax (benefit) expense	(9,431)	(11,828)	(6,286)	(31,137)	2,930
Loss on extinguishment of debt, net	5,013	1,048	37,640	27,604	9,791
Merger-related expenses, deal costs and re-audit costs	54,389	21,560	63,183	153,923	19,243
Amortization of other intangibles	1,246	1,022	1,022	1,022	511
Normalized FFO	\$1,330,018	\$1,220,709	\$1,120,225	\$776,963	\$453,981

Adjusted EBITDA

We consider Adjusted EBITDA an important supplemental measure to net income because it provides another manner in which to evaluate our operating performance and serves as another indicator of our ability to service debt. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization (including non-cash stock-based compensation expense), excluding gains or losses on extinguishment of debt, merger-related expenses and deal costs, expenses related to the re-audit and re-review of our historical financial statements, net gains on real estate activity and changes in the fair value of financial instruments (including amounts in discontinued operations). The following table sets forth a reconciliation of our Adjusted EBITDA to net income (including amounts in discontinued operations) for the years ended December 31, 2014, 2013 and 2012:

	For the Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income	\$477,186	\$454,889	\$361,775
Adjustments:			
Interest	378,556	340,381	302,031
Loss on extinguishment of debt, net	5,564	1,048	37,640
Taxes (including amounts in general, administrative and professional fees)	(4,770)	(7,166)	(2,627)
Depreciation and amortization	828,466	769,881	764,774
Non-cash stock-based compensation expense	20,994	20,653	20,784
Merger-related expenses, deal costs and re-audit costs	53,847	21,634	63,183
Gain on real estate dispositions	(19,183)	(3,617)	(80,952)
Changes in fair value of financial instruments	5,121	449	99
Gain on re-measurement of equity interest upon acquisition, net	—	(1,241)	(16,645)
Adjusted EBITDA	\$1,745,781	\$1,596,911	\$1,450,062

NOI

We also consider NOI an important supplemental measure to net income because it enables investors, analysts and our management to assess our unlevered property-level operating results and to compare our operating results with the operating results of other real estate companies and between periods on a consistent basis. We define NOI as total revenues, less interest and other income, property-level operating expenses and medical office building services costs (including amounts in discontinued operations). Cash receipts may differ due to straight-line recognition of certain rental income and the application of other GAAP policies. The following table sets forth a reconciliation of our NOI to net income (including amounts in discontinued operations) for the years ended December 31, 2014, 2013 and 2012:

	For the Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net income	\$477,186	\$454,889	\$361,775
Adjustments:			
Interest and other income	(5,017) (2,047) (6,158
Interest	378,556	340,381	302,031
Depreciation and amortization	828,466	769,881	764,774
General, administrative and professional fees	121,746	115,109	98,813
Loss on extinguishment of debt, net	5,564	1,048	37,640
Merger-related expenses and deal costs	45,051	21,634	63,183
Other	39,337	18,325	8,842
Loss (income) from unconsolidated entities	139	508	(18,154
Income tax benefit	(8,732) (11,828) (6,286
Gain on real estate dispositions	(19,183) (3,617) (80,952
NOI	1,863,113	1,704,283	1,525,508
Discontinued operations	(3,824) (12,825) (33,304
NOI (excluding amounts in discontinued operations)	\$1,859,289	\$1,691,458	\$1,492,204

Asset/Liability Management

Asset/liability management, a key element of enterprise risk management, is designed to support the achievement of our business strategy, while ensuring that we maintain appropriate and tolerable levels of market risk (primarily interest rate risk and foreign currency exchange risk) and credit risk. Effective management of these risks is a contributing factor to 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.

Market Risk

Market risk related to changes in interest rates, such as LIBOR or prime rates, has a direct impact on borrowings under our unsecured revolving credit facility and our unsecured term loans, certain of our mortgage loans that are floating rate obligations, mortgage loans receivable that bear interest at floating rates and marketable debt securities. To mitigate these risks, we continuously monitor our level of floating rate debt with respect to total debt and other factors, including our expectations regarding current and future economic conditions.

The table below sets forth certain information with respect to our debt, excluding premiums, discounts and capital lease obligations.

	As of December 31,			
	2014	2013	2012	
	(Dollars in thousands)			
Balance:				
Fixed rate:				
Senior notes and other	\$6,677,875	\$5,418,543	\$4,079,643	
Mortgage loans and other (1)	1,810,716	2,155,155	2,442,652	
Variable rate:				
Unsecured revolving credit facilities	919,099	376,343	540,727	
Unsecured term loans	990,634	1,000,702	685,336	
Mortgage loans and other	474,047	369,734	437,957	
Total	\$10,872,371	\$9,320,477	\$8,186,315	
Percent of total debt:				
Fixed rate:				
Senior notes and other	61.4	% 58.1	% 49.8	%
Mortgage loans and other (1)	16.6	23.1	29.8	
Variable rate:				
Unsecured revolving credit facilities	8.5	4.0	6.6	
Unsecured term loans	9.1	10.7	8.4	
Mortgage loans and other	4.4	4.1	5.4	
Total	100.0	% 100.0	% 100.0	%
Weighted average interest rate at end of period:				
Fixed rate:				
Senior notes and other	3.5	% 3.7	% 4.0	%
Mortgage loans and other (1)	5.9	6.0	6.1	
Variable rate:				
Unsecured revolving credit facilities	1.4	1.2	1.5	
Unsecured term loans	1.3	1.3	1.6	
Mortgage loans and other	2.3	1.7	1.9	
Total	3.5	3.8	4.1	

Excludes mortgage debt of \$43.5 million, \$13.1 million and \$23.2 million related to real estate assets classified as (1) held for sale as of December 31, 2014, 2013 and 2012, respectively, which debt is included in accounts payable and other liabilities on our Consolidated Balance Sheets.

The variable rate debt in the table above reflects, in part, the effect of \$153.6 million notional amount of interest rate swaps with a maturity of March 21, 2016 that effectively convert fixed rate debt to variable rate debt. In addition, the fixed rate debt in the table above reflects, in part, the effect of \$59.0 million notional amount of interest rate swaps with maturities ranging from March 2, 2015 to April 1, 2019, in each case that effectively convert variable rate debt to fixed rate debt. The increase in our outstanding variable rate debt at December 31, 2014 compared to December 31, 2013 is attributable primarily to 2014 borrowings under our unsecured revolving credit facility. Pursuant to the terms of certain leases with one of our tenants, if interest rates increase on certain variable rate debt that we have totaling \$80.0 million as of December 31, 2014, 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 no change in our variable rate debt outstanding as of December 31, 2014, if the weighted average interest rate related to our variable rate debt were to increase 100 basis points, interest expense for 2015 would increase by approximately \$23.8 million, or \$0.08 per diluted common share.

As of December 31, 2014 and 2013, our joint venture and operating partners' aggregate share of total debt was \$141.4 million and \$174.5 million, respectively, with respect to certain properties we owned through consolidated joint ventures and an operating partnership. Total debt does not include our portion of debt related to investments in unconsolidated entities, which was \$97.5 million and \$89.3 million as of December 31, 2014 and 2013, respectively. The fair value of our fixed and variable rate debt is based on current interest rates at which we could obtain similar borrowings. For fixed rate debt, interest rate fluctuations generally affect fair value, but not our earnings or cash flows. Therefore, interest rate risk does not significantly impact our fixed rate debt obligations until their maturity or earlier prepayment and refinancing. If interest rates have risen at the time we seek to refinance our fixed rate debt, whether at maturity or otherwise, our future earnings and cash flows could be adversely affected by increased borrowing costs. Conversely, lower interest rates at the time of refinancing may reduce our overall borrowing costs. 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, 2014 and 2013:

	As of December 31,	
	2014	2013
	(In thousands)	
Gross book value	\$8,488,591	\$7,573,698
Fair value (1)	8,817,982	7,690,196
Fair value reflecting change in interest rates (1):		
-100 BPS	9,256,492	8,069,013
+100 BPS	8,406,735	7,320,251

(1) The change in fair value of our fixed rate debt from December 31, 2013 to December 31, 2014 was due primarily to 2014 senior note issuances, partially offset by mortgage loan repayments.

As of December 31, 2014 and 2013, the fair value of our secured and unsecured loans receivable, based on our estimates of currently prevailing rates for comparable loans, was \$798.0 million and \$395.7 million, respectively. See "Note 6—Loans Receivable and Investments" and "Note 11—Fair Values of Financial Instruments" of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

As a result of our Canadian and United Kingdom operations, we are subject to fluctuations in certain foreign currency exchange rates that may, from time to time, affect our financial condition and operating performance. Based solely on our results for the year ended December 31, 2014 (on a pro forma basis after giving effect to the Holiday Canada Acquisition, our 2014 Canadian senior note issuances, our U.K. hospital acquisition, and including the impact of existing hedging arrangements), if the value of the U.S. dollar relative to the British pound and Canadian dollar were to increase or decrease by 10% compared to the average exchange rate during that year, our 2014 normalized FFO per share would have decreased or increased, as applicable, by less than \$0.02 and \$0.02 per share, respectively. We will continue to mitigate these risks through a layered approach to hedging looking out for the next year and continual assessment of our foreign operational capital structure. Nevertheless, we cannot assure you that any such fluctuations will not have an effect on our earnings.

Concentration and Credit Risk

We use concentration ratios to identify, understand and evaluate the potential impact of economic downturns and other adverse events that may affect our asset types, geographic locations, business models, and tenants, operators and managers. We evaluate concentration risk in terms of investment mix and operations mix. Investment mix measures the percentage of our investments that is concentrated in a specific asset type or that is operated or managed by a particular tenant, operator or manager. Operations mix measures the percentage of our operating results that is attributed to a particular tenant, operator or manager, geographic location or business model. The following tables reflect our concentration risk as of the dates and for the periods presented:

As of
December 31,