VENTAS INC
Form 10-Q
May 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission file number: 1-10989

Ventas, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**61-1055020**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

10350 Ormsby Park Place, Suite 300

Louisville, Kentucky

(Address of Principal Executive Offices)

40223

(Zip Code)

(502) 357-9000

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class of Common Stock:	**Outstanding at May 1, 2008:**
Common Stock, $0.25 par value	138,472,925

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VENTAS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Real estate investments:		
Land	$ 567,523	$ 572,092
Buildings and improvements	5,668,239	5,718,273
	6,235,762	6,290,365
Accumulated depreciation	(855,148)	(816,352)
Net real estate property	5,380,614	5,474,013
Loans receivable, net	19,945	19,998
Net real estate investments	5,400,559	5,494,011
Cash and cash equivalents	51,347	28,334
Escrow deposits and restricted cash	52,621	54,077
Deferred financing costs, net	21,978	22,836
Notes receivable-related parties	2,109	2,092
Other	123,174	115,278
Total assets	$ 5,651,788	$ 5,716,628
Liabilities and stockholders equity		
Liabilities:		
Senior notes payable and other debt	$ 3,157,111	$ 3,360,499
Deferred revenue	8,700	9,065
Accrued interest	46,748	20,790
Accounts payable and other accrued liabilities	142,386	173,576
Deferred income taxes	286,153	297,590
Total liabilities	3,641,098	3,861,520
Minority interest	32,316	31,454
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 10,000 shares authorized, unissued		
Common stock, $0.25 par value; authorized 300,000 shares; 138,369 and 133,665 shares issued at March 31, 2008 and December 31,2007, respectively	34,592	33,416
Capital in excess of par value	2,015,661	1,821,294
Accumulated other comprehensive income	14,819	17,416
Retained earnings (deficit)	(86,698)	(47,846)

Treasury stock, 0 and 14 shares at March 31, 2008 and December 31, 2007, respectively		(626)
Total stockholders equity	1,978,374	1,823,654
Total liabilities and stockholders equity	$ 5,651,788	$ 5,716,628

See notes to condensed consolidated financial statements.

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VENTAS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007
Revenues:		
Rental income	$ 122,707	$ 116,345
Resident fees and services	107,726	
Interest income from loans receivable	467	823
Interest and other income	864	249
Total revenues	231,764	117,417
Expenses:		
Interest	52,864	38,809
Depreciation and amortization	71,660	32,279
Property-level operating expenses	76,957	941
General, administrative and professional fees (including non-cash stock-based compensation expense of $1,949 and $2,014 for the three months ended March 31, 2008 and 2007, respectively	8,257	7,581
Foreign currency gain	(79)	(5,786)
Gain on extinguishment of debt	(79)	
Merger-related expenses	646	
Total expenses	210,226	73,824
Income before income taxes, minority interest and discontinued operations	21,538	43,593
Income tax benefit	10,038	
Income before minority interest and discontinued operations	31,576	43,593
Minority interest, net of tax	478	5
Income from continuing operations	31,098	43,588
Discontinued operations	954	1,518
Net income applicable to common shares	$ 32,052	$ 45,106
Earnings per common share:		
Basic:		
Income from continuing operations applicable to common shares	$ 0.23	$ 0.41
Discontinued operations	0.01	0.02
Net income applicable to common shares	$ 0.24	$ 0.43
Diluted:		
Income from continuing operations applicable to common shares	$ 0.22	$ 0.41
Discontinued operations	0.01	0.01
Net income applicable to common shares	$ 0.23	$ 0.42

Weighted average shares used in computing earnings per common share:		
Basic	136,381	106,044
Diluted	136,673	106,775
Dividends declared per common share	$ 0.5125	$ 0.475

See notes to condensed consolidated financial statements.

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VENTAS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2008	2007
Cash flows from operating activities:		
Net income applicable to common shares	$ 32,052	$ 45,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amounts in discontinued operations)	71,836	33,433
Amortization of deferred revenue and lease intangibles, net	(3,111)	(604)
Other amortization expenses	638	1,110
Stock-based compensation	1,949	2,014
Straight-lining of rental income	(3,759)	(4,269)
Gain on extinguishment of debt	(108)	
Income tax benefit	(10,038)	
Unrealized gain on foreign currency hedge		(5,786)
Other	801	34
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	15,728	(16,577)
Increase in accrued interest	25,958	25,748
(Decrease) increase in accounts payable and other liabilities	(27,320)	7,931
Net cash provided by operating activities	104,626	88,140
Cash flows from investing activities:		
Net investment in real estate property	(5,971)	(30,351)
Proceeds from sale of securities		5,072
Proceeds from loans receivable	62	110
Capital expenditures	(932)	(36)
Other	(17)	(18)
Net cash used in investing activities	(6,858)	(25,223)
Cash flows from financing activities:		
Net change in borrowings under revolving credit facilities	(172,216)	151,500
Repayment of debt	(29,204)	(117,270)
Proceeds from debt	5,001	
Payment of deferred financing costs	(675)	(412)
Issuance of common stock	191,668	
Cash distribution to common stockholders	(70,906)	(92,471)
Other	1,866	(5,510)
Net cash used in financing activities	(74,466)	(64,163)
Net increase (decrease) in cash and cash equivalents	23,302	(1,246)
Effect of foreign currency translation on cash and cash equivalents	(289)	
Cash and cash equivalents at beginning of period	28,334	1,246
Cash and cash equivalents at end of period	$ 51,347	$

Supplemental schedule of non-cash activities:

Assets and liabilities assumed from acquisitions:				
Real estate investments	$	46	$	7,577
Debt assumed				6,868
Minority interest		46		
Other liabilities				709

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS

Ventas, Inc. (together with its subsidiaries, unless otherwise indicated or except where the context otherwise requires, we, us or our) is a real estate investment trust (REIT) with a geographically diverse portfolio of seniors housing and healthcare-related properties in the United States and Canada. As of March 31, 2008, this portfolio consisted of 520 assets: 254 seniors housing communities, 197 skilled nursing facilities, 42 hospitals and 27 medical office and other properties in 43 states and two Canadian provinces. With the exception of 79 of our seniors housing communities that are managed by Sunrise Senior Living, Inc. (together with its subsidiaries, Sunrise) pursuant to long-term management agreements and our medical office buildings (MOBs), we lease these properties to healthcare operating companies under triple-net or absolute-net leases, which require the tenants to pay all property-related expenses. We also had real estate loan investments relating to seniors housing and healthcare-related third parties as of March 31, 2008.

We conduct substantially all of our business through our wholly owned subsidiaries, Ventas Realty, Limited Partnership (Ventas Realty), PSLT OP, L.P. and Ventas SSL, Inc., and ElderTrust Operating Limited Partnership (ETOP), in which we own substantially all of the partnership units.

NOTE 2 ACCOUNTING POLICIES

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the Securities and Exchange Commission (the Commission) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim period have been included. Operating results for the three-month period ended March 31, 2008 are not necessarily an indication of the results that may be expected for the year ending December 31, 2008. The accompanying Condensed Consolidated Financial Statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007. Certain prior period amounts have been reclassified to conform to the current period presentation.

Recently Adopted Accounting Standards

On January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value and provides guidance for measuring fair value and the necessary disclosures. SFAS No. 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. The adoption did not have a material impact on our Condensed Consolidated Financial Statements.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels one and two of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within level three of the hierarchy).

Level one inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Level two inputs are inputs other than quoted prices included in level one that are observable for the asset or liability, either directly or indirectly. Level two inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level three inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. 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.

Currently, we use an interest rate swap to manage some of our interest rate risk. The valuation of this instrument is determined using level two inputs, including netting the discounted future fixed cash flows and the discounted expected variable cash flows. The variable cash flows are based on an expectation of future interest rates or forward curves derived from observable market interest rate curves.

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As of March 31, 2008, we had no other financial instruments requiring fair value measurement.

NOTE 3 CONCENTRATION OF CREDIT RISK

As of March 31, 2008, approximately 39.9%, 22.2% and 15.0% of our properties, based on gross book value, were managed or operated by Sunrise, Brookdale Senior Living Inc. (together with its subsidiaries, which include Brookdale Living Communities, Inc. (Brookdale) and Alterra Healthcare Corporation (Alterra), Brookdale Senior Living) and Kindred Healthcare, Inc. (together with its subsidiaries, Kindred), respectively, and approximately 77.6% and 13.3% of our properties, based on their original cost, were seniors housing communities and skilled nursing facilities, respectively. Our remaining properties consist of hospitals, MOBs and other healthcare-related assets. These properties were located in 43 states, with properties in only two states accounting for more than 10% of total revenues during the three months ended March 31, 2008, and two Canadian provinces.

Triple-Net Leased Properties

Approximately 25.3% and 49.5% of our total revenues (including amounts in discontinued operations) for the three months ended March 31, 2008 and 2007, respectively, were derived from our master lease agreements with Kindred (the Kindred Master Leases). There are several renewal bundles of properties under each Kindred Master Lease, with each bundle containing a varying number of properties. All properties within a bundle have primary terms ranging from ten to fifteen years from May 1, 1998 and, provided certain conditions are satisfied, are subject to three five-year renewal terms. Kindred has renewed, through April 30, 2013, its leases covering all 57 assets owned by us whose initial base term expired on April 30, 2008.

Approximately 13.0% and 25.2% of our total revenues (including amounts in discontinued operations) for the three months ended March 31, 2008 and 2007, respectively, were derived from our lease agreements with Brookdale Senior Living. Our leases