



Performance

the measure of success



2003 annual report

A Dynamic Performance

In

2003

Ventas delivered

Total Shareholder Return

of

106%

and an increase in

Funds From Operations Per Share

of

13%

Financial Highlights

2003

	2003	2002
(In thousands, except per share amounts)		
Operating Data:		
Rental Revenue	\$ 191,232	\$ 175,950
Total Revenue	205,003	183,137
EBITDA ¹	281,326	208,020
Normalized EBITDA ²	201,187	179,556
Net Income before discontinued operations	96,734	37,354
Net Income	162,753	65,706
Per Share Data:		
FFO ³	\$ 1.91	\$ 1.20
Normalized FFO ⁴	\$ 1.54	\$ 1.36
Net Income before discontinued operations	\$ 1.21	\$ 0.53
Net Income	\$ 2.03	\$ 0.93
Dividends Paid for Year	\$ 1.07	\$ 0.95
Weighted Average Shares Outstanding, diluted	80,094	70,290
Closing Stock Price	\$ 22.00	\$ 11.45
Shares Outstanding	80,791	78,878
Other Data:		
Equity Market Capitalization	\$1,777,402	903,153
Total Capitalization	\$2,417,964	1,610,862
Debt/Total Capitalization	29.3%	43.9%

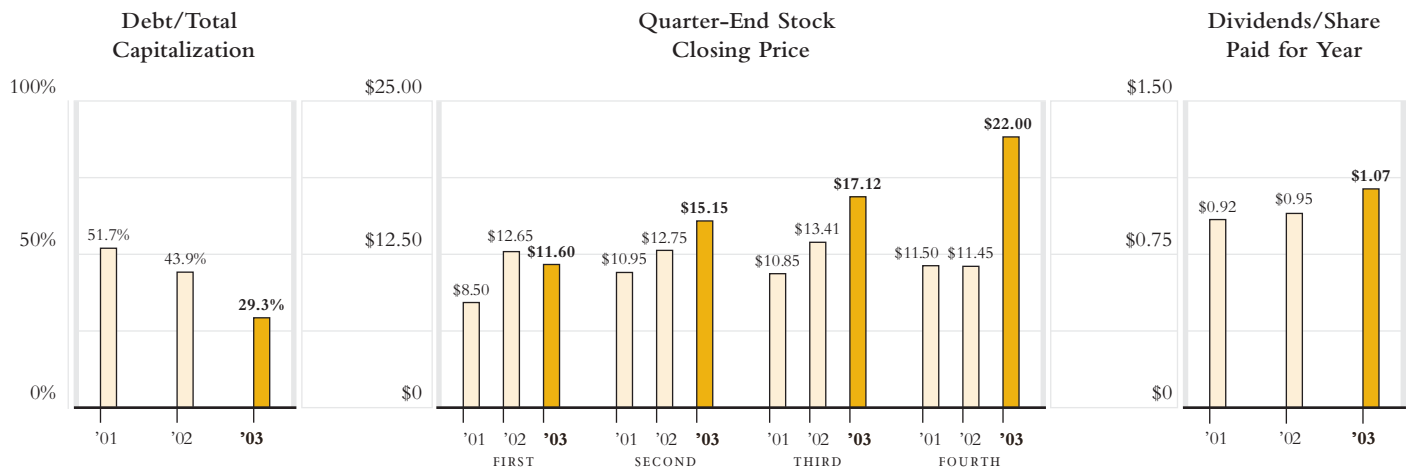
1 Earnings before interest, taxes, depreciation and amortization.

2 Normalized EBITDA includes EBITDA from continuing and discontinued operations but excludes: (a) gains and losses from sales of property, and non-cash impairment expense; (b) gains on the sale of Kindred common stock; and (c) the benefit of a \$20.2 million reversal of contingent liability from the favorable completion of the Company's 1997-98 IRS audit.

3 Funds From Operations.

4 Normalized FFO excludes: (a) gains on the sale of Kindred common stock; (b) the benefit of a \$20.2 million reversal of contingent liability from the favorable completion of the Company's 1997-98 IRS audit; and (c) in 2002, the loss on extinguishment of debt and swap breakage expense incurred in connection with the Company's April 2002 debt refinancing.

For non-GAAP reconciliation, see "Supplemental Data" on page 62.





Debra A. Cafaro
Chairman, President and
Chief Executive Officer

Dear Fellow Shareholder,

Ventas's 2003 performance was exceptional. With our existing portfolio of high-quality healthcare assets improving, our senior management team motivated and focused, our business strategy of disciplined growth and diversification underway, and our infrastructure supporting our efforts, Ventas has emerged as a leader in the healthcare REIT sector. Most importantly, we rewarded all of the investors who placed their confidence—and their precious capital—with us.

2003 Financial Results

Ventas's 2003 financial results flowed directly from our hard work over the past several years. Since 2000, we have consistently delivered positive total shareholder returns (TSR), together with annual increases in cash flow from operations, dividends, and equity capitalization.

2003 TSR was a powerful 106 percent. For the three years ended December 31, 2003, Ventas produced a three-year compound annual return of 70 percent. In each case, Ventas was the top performing stock among the more than 100 REITs in the Morgan Stanley REIT index (RMS).

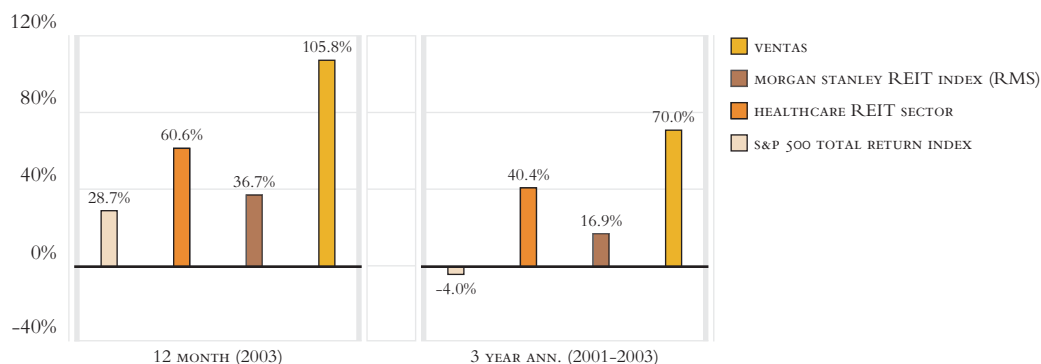
Our focus on growing Funds From Operations (FFO) per share continued in 2003. Normalized FFO increased 13 percent to \$1.54 per share. To put our results in context, 2003 FFO per share at all healthcare REITs grew by 0.7 percent, and in the REIT sector overall, it actually shrunk by 2.2 percent.

While growing earnings, we retained our emphasis on improving our balance sheet. We believe that financial strength and flexibility are important predicates to long-term success. In 2003, we improved both our debt-to-EBITDA ratio and our fixed charge coverage ratio by reducing our debt by over \$100 million and paying off the Department of Justice Settlement three years early.

Strategic Diversification in Action

During the year, Ventas designed a hand-in-glove sequence of asset sales and acquisitions that should increase our FFO per share, enhance our portfolio and advance our strategic diversification objective.

Ventas Outperformed the Markets



In the fourth quarter, we announced our merger with ElderTrust (NYSE:ETT), the first merger in the healthcare REIT sector since 1999.

The \$160 million (net) transaction is a perfect fit with the strategic goals we have enunciated. The merger brings us 18 high-quality assets, located in preferred states that are operated by respected senior care providers. Because two-thirds of the ElderTrust properties are senior living assets and medical office buildings (MOB), the merger furthers our goals of reducing our reliance on Kindred and on government reimbursement.

We funded the ElderTrust acquisition by executing on the other half of our diversification strategy. In 2003, we sold 26 underperforming assets to our primary tenant, Kindred Healthcare, Inc. (Nasdaq:KIND), for total consideration of \$193 million. Working cooperatively with Kindred, we crafted transactions that created shareholder value for both companies.

By coupling the Kindred dispositions with the ElderTrust merger, we divested “bad” assets for premium pricing and redeployed the capital into higher quality assets. In so doing, we made meaningful strides on our goals of earnings growth and strategic diversification.

Our Program for 2004 – Keeping Our Edge

During 2004, we expect to grow FFO per share, diversify our portfolio to create long-term value, seek selective divestitures of our assets and continue our focus on excellence.

In making capital allocation decisions during the year, we will focus on executing our strategic diversification plan, increasing our dividend and maintaining our financial strength.

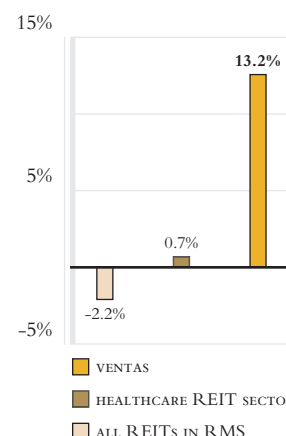
We want to make investments that provide our shareholders with good “risk/reward” characteristics, achieve appropriate returns on invested capital, increase our earnings and reduce our concentration risk by further fragmenting our revenue streams by tenant and by asset class. An excellent example of our philosophy is our recent acquisition of a large pool of senior living facilities operated by Brookdale Living Communities, Inc., a nationally respected, experienced senior care provider.

In 2004, we also hope to build on the positive momentum with our primary tenant, Kindred. If the companies continue to work together, we should enjoy other meaningful opportunities to create additional value for our shareholders.

We will do everything we can to continue our record of building shareholder value and delivering excellent risk-adjusted return to our shareholders in 2004. We start with the highest built-in growth rate in the healthcare REIT sector derived from the annual escalators in our Master Leases with Kindred and Trans Healthcare, Inc. If we are successful in adding growth from acquisitions, we could increase core FFO by double digits again in 2004.

We also expect to provide a growing, secure dividend to our shareholders. Our Board of Directors has announced an anticipated 2004 annual dividend of \$1.30 per share, more than a 21 percent increase over the 2003 dividend. This decision evidences our confidence in our cash flow, our growth prospects, our tenants, and the long-term care sector.

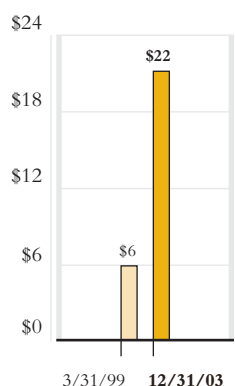
2003
FFO Per Share Growth



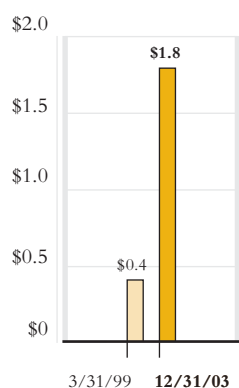
(Source: Morgan Stanley)

Five-Year Consistent Superior Performance

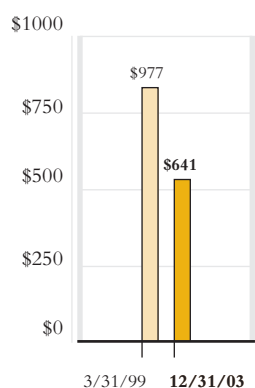
Improved Share Price (in dollars)



Increased Equity Value (in billions)



Stronger Balance Sheet (debt balance in millions)



2004 Outlook

For the first time in memory, the major asset classes we own look positive across the board.

As the largest owner of freestanding long-term acute care hospitals (LTAC) in the United States, we believe that the recently implemented prospective payment reimbursement system should be a positive for Kindred and for valuations at our facilities. In our 199 skilled nursing facilities (SNF), Medicare reimbursement recently increased, providing additional revenue at our facilities. Medicaid, the state-funded program for the indigent, has proven to be relatively stable, and selective state tort reform has helped to moderate professional liability costs. Outside of the government-reimbursed arena, the senior living sectors are benefiting from stabilizing occupancies, minimal new construction, rational capital structures and consolidation of operators.

All of these trends should result in improved financial and operating stability for long-term care providers. We expect 2004 to be a generally positive year for our operator-tenants.

Yet we are ever mindful that the care providers in the healthcare and senior housing sector operate in a difficult and occasionally treacherous business, with little room for error. We remain focused on protecting the downside in our existing and future investments. We will do so through relentless vigilance on risk, the structure of our deals, the partners we choose to work with and our view of the sustainable cash flow of the assets we acquire.

We are confident that we have positioned ourselves to outperform in 2004, and to weather the inevitable surprises and volatility in the sector. This protection derives from the balance between our nursing center and hospital assets, now leavened with our assisted and independent living and MOB assets, our 38-state geographic diversification, our pooled multi-facility Master Leases, Kindred's improved credit profile and our own strong financial condition.

As funds flowed into REITs last year, equity prices reached high valuations, and REIT investors enjoyed a terrific year. While investor appetite for attractive dividend yielding REIT securities remains strong, if capital flows reverse course in 2004, then even the best companies could experience some downward pressure on equity values.

We can't control capital flows, but we believe Ventas has the potential to succeed in any environment. Specifically, we have built a company with a high internal growth rate that should produce normalized FFO per share growth every year, we have retained significant annual cash flow that is available to fund acquisitions without tapping the equity markets, and we have maintained a comfortable dividend payout ratio that should allow us to increase your dividend in the future. We have carefully protected and structured an attractive portfolio of productive healthcare assets and leases that should increase in value from the dramatic future growth in our elderly population. Finally, we have unique opportunities to generate additional upside for our shareholders.

Portfolio (at 12/31/03)

Type of Facility	Number of Facilities	Number of Licensed Beds
Hospitals	42	3,629
Skilled Nursing Facilities	194	24,399
Other Healthcare and Senior Housing Facilities	9	181
Total	245	28,209

In 2004 and beyond, we believe that the healthcare REIT sector will, and should, experience more consolidation to create more efficient enterprises that will enjoy greater liquidity, pooled risk and lower administrative costs per dollar of revenue. We expect Ventas to be an active participant in that trend.

Our promise

As I complete this letter, it is my fifth anniversary as president and CEO of Ventas. The past five years have been a great journey, from my early days on the job, when we were in the crisis management business, to our current days of delivering consistent superior performance and implementing a disciplined growth and diversification strategy. During that time, we have gone from being one of the weakest REITs to an industry leader.

We developed a strategy with clear goals, executed rigorously, worked hard and enjoyed some serendipity as well. In the course of our evolution, the reliability and integrity of our assets, cash flows and Company became clear to our diverse audience of shareholders, lenders and business partners.

The transformation occurred because, from the beginning, we developed a strategy with clear goals, executed rigorously, worked hard and enjoyed some serendipity as well. In the course of our evolution, the reliability and integrity of our assets, cash flows and Company became clear to our diverse audience of shareholders, lenders and business partners.

Our Board of Directors has overseen our progress and setbacks every step of the way. Always independent, they have given generously of their experience and their intelligence for the benefit of our shareholders. They have challenged and supported us, and I am grateful to each of them for their guidance.

Members of the Ventas team have also performed magnificently. They keep rising to new challenges and using their significant skills to reshape Ventas into a truly excellent enterprise. It would be difficult to find a more productive and committed group of employees who understand that they are there, every day, to serve the shareholders.

Many of our shareholders have stayed with us through the tumultuous times, and others have recently made an investment in our future. We delight in rewarding your loyalty and trust. Our only job is to manage our valuable portfolio and strategic platform for your benefit.

In 2004, we hope to provide you with another exceptional performance.

Sincerely,

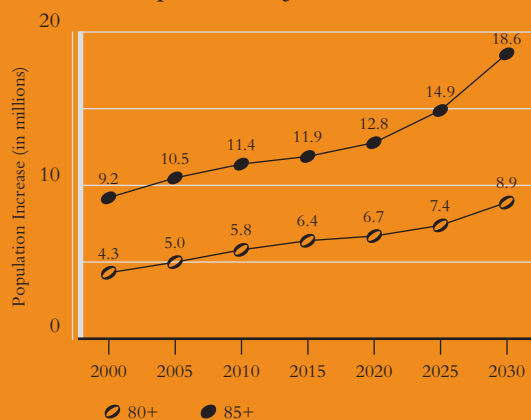


Debra A. Cafaro
Chairman, President and
Chief Executive Officer

March 12, 2004

The source of Ventas's strength rests chiefly on two elements: key decisions made around the restructuring of our primary tenant and the viability and growth trends in the long-term care sector as the U.S. population ages.

U.S. Population Projections

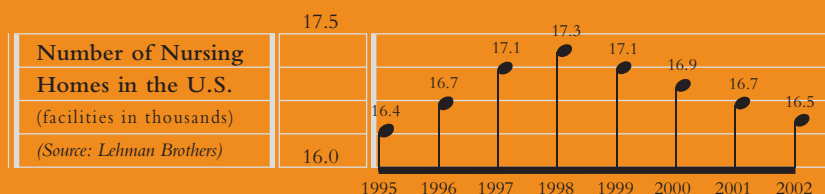


(Source: U.S. Census Bureau)

The 80-plus and 85-plus age groups in the U.S. are expected to grow by more than 100% in the next thirty years, compared with a 28 percent increase for the U.S. population as a whole.

We set the stage for Ventas's value during the dark days of the Kindred Healthcare bankruptcy when we agreed to forego some short-term gains to help our tenant achieve stability. In return, we secured for our shareholders a legitimate opportunity to participate in future benefits when our tenant and the long-term care sector returned to financial health.

Our strategy has paid off.



Number of Nursing
Homes in the U.S.
(facilities in thousands)

(Source: Lehman Brothers)

With our 3.5 percent all-cash escalators in our Kindred Master Leases, we expect to report industry-leading internal FFO growth. With our pooled multi-facility Master Leases, and the significant cushion between our operator's cash flow and our rent, we enjoy superior downside protection from volatility in our tenant's earnings over time. Our 9.9 percent equity stake in Kindred generated about \$50 million of cash to improve our balance sheet. And, with our reset right, we have the option in 2006 to increase our principal tenant's rent to market levels. Most importantly, by setting rents and Kindred's capital structure at the trough in Medicare reimbursement, we are in the enviable position of having a creditworthy tenant with excellent prospects. The improving relationship between Ventas and Kindred also sets the stage for additional value-creating transactions in the future.

The second essential underpinning of our business is the positive supply and demand fundamentals of healthcare real estate.

The fastest-growing segment of the U.S. population is people age 85 and older. About one-fourth of that group is expected to require care in a skilled nursing facility. SNFs satisfy an important need for healthcare services among our growing elderly population.

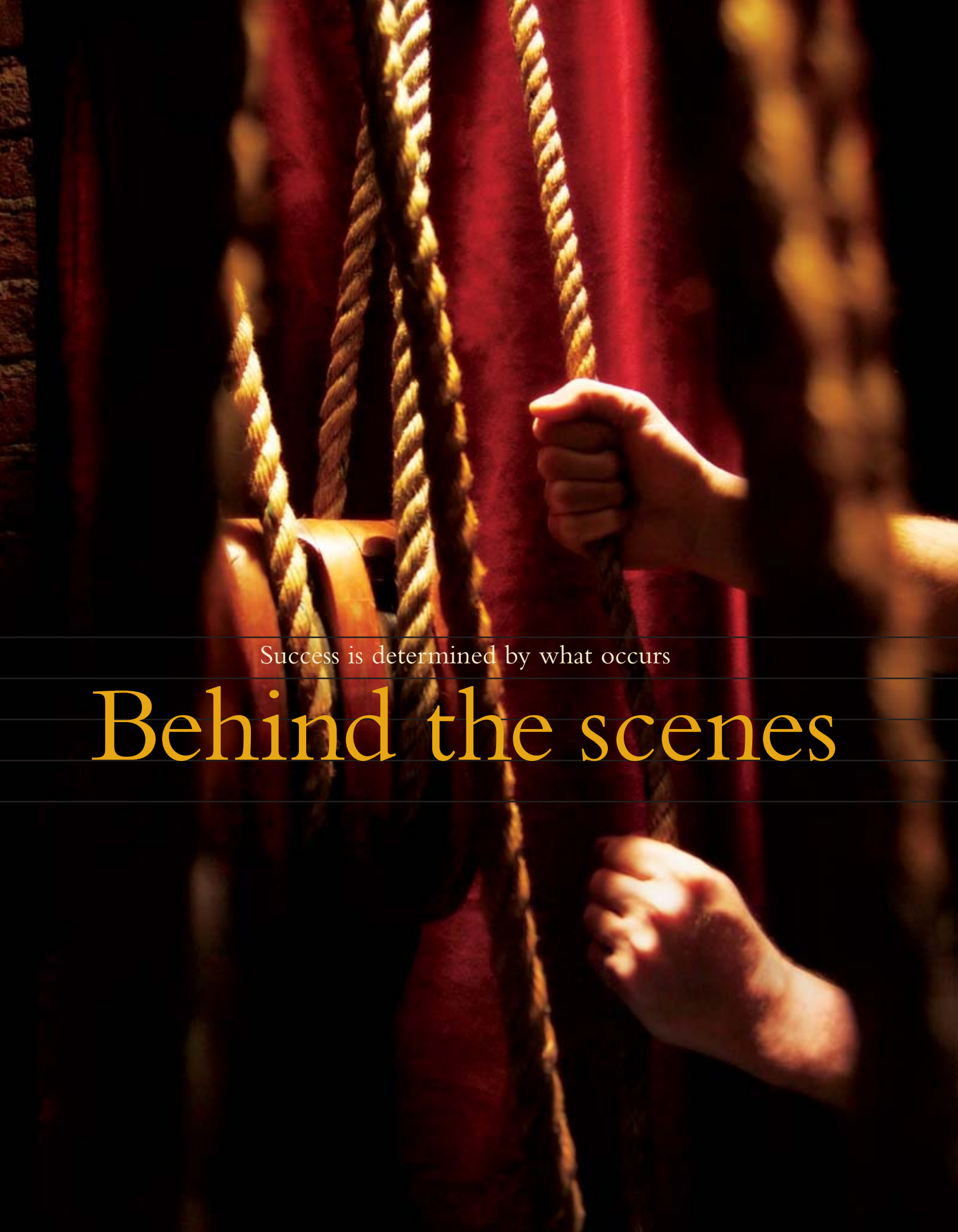
Yet the supply of skilled nursing facilities has declined over the past few years, due to regulatory barriers to entry and the high cost of construction. Specifically, in two-thirds of the states, certificate of need (CON) requirements limit the construction of competing new facilities.

This powerful combination of constrained supply of healthcare facilities with the burgeoning demand for healthcare services should drive the value of our portfolio.



Great performance flows from solid

Fundamentals

A close-up photograph of a person's hands gripping thick, braided ropes. The person is climbing, with one hand higher than the other. The background is a deep red, textured surface, possibly a curtain or wall. The lighting is warm and dramatic, highlighting the texture of the ropes and the person's hands.

Success is determined by what occurs

Behind the scenes

Excellent performance follows hard work, preparation, and diligence in every detail. A great deal of that work is never seen, but it provides the essential backdrop that every publicly traded company needs to insure continuing success for its shareholders.

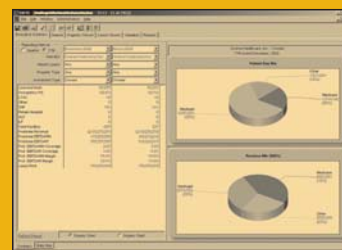
Our behind-the-scenes activities may lack the glamour of negotiating acquisitions or capital markets transactions, but at Ventas we place as much importance on planning and preparation as we do on our visible accomplishments.

During 2003, we continued to focus on creating and enhancing a scalable infrastructure that will enable us to perform well on a consistent basis. This includes our new asset management program, board improvement, corporate governance excellence and internal audit implementation.

Ventas took two important steps last year to help insure that the Company would continue to follow sound corporate governance principles. First, the Board of Directors elected Douglas Crocker II to the newly created position of Presiding Director, with responsibility for leading regularly scheduled executive sessions among the independent members of the Board. And we welcomed Thomas C. Theobald to our Board, reflecting the Company's continued commitment to attracting independent, experienced directors who will add substantive value to the Company. Ventas has a tremendously experienced and truly excellent Board of Directors – one that is fully engaged in the Company's strategy.

We remain a leader in corporate governance, as evidenced by our 94th percentile rating from Institutional Shareholder Services, an independent company that measures companies on their governance responsibilities. Yet we strive for continuous improvement and intelligent compliance with new Securities and Exchange Commission (SEC) and New York Stock Exchange (NYSE) rules. Last year we committed significant time and expense to a full-scale effort to systematize and record our policies and procedures, develop our internal audit function and insure that appropriate controls are in place, well in advance of applicable deadlines.

Ventas Asset Management System (VAMS)



VAMS gives us critical, up-to-date information about each of our properties.

In 2003 we designed and implemented a thorough asset management program to monitor and optimize our extensive portfolio. We began a series of engineering inspections to insure that our assets remain in good condition and repair. Our new, fully functional asset management database enables us to track financial and operating performance at each of our assets, identify important trends, catalogue property characteristics and anticipate critical future events, such as insurance and lease expirations. Our goal is to increase the reliability of our future cash flows, reduce surprises and optimize performance of our portfolio.

These important elements facilitate our future success.

Business isn't always fun or predictable.
Occasionally, unpleasant and unexpected
events occur to cause setbacks.

The art of business involves finding
ways to transform those reversals
into opportunities for growth.

In 2003, Ventas confronted challenges that we turned into successful outcomes for our shareholders. Importantly, we developed unique solutions that also benefited our primary tenant, Kindred Healthcare.

When, in late 2002, Kindred announced that it would have unanticipated high professional liability costs at its skilled nursing facilities in Florida, we began to negotiate a mutually beneficial agreement that took over six months to conclude. In June of 2003, we sold to Kindred 15 skilled nursing facilities in Florida and one in Texas. In turn, Kindred sold the facilities to a third-party buyer and agreed to increase annual Ventas rents by \$8.6 million.

Later in the year, we reprised our performance with a second transaction in which we sold ten underperforming assets to Kindred for a significant premium over their market value. Again, Kindred is moving quickly to divest ownership and operations at those assets.

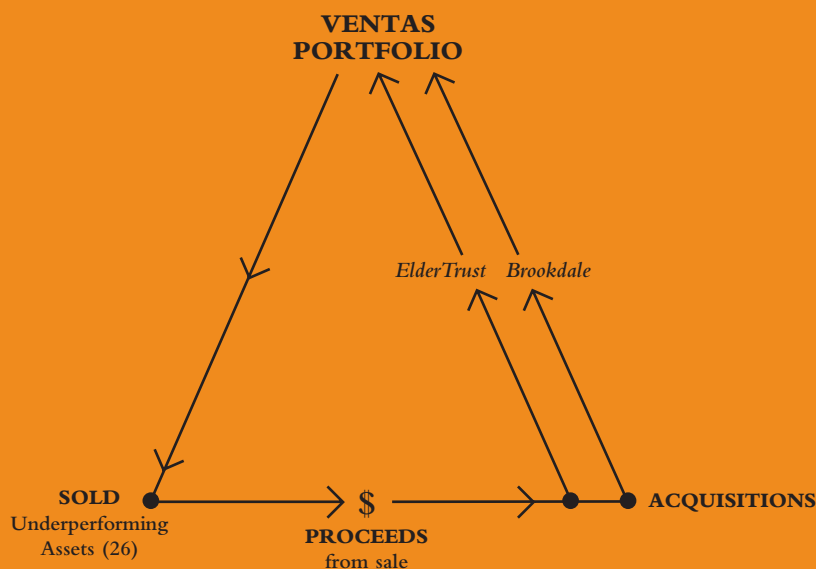
Together, these transactions demonstrated the power and value of our pooled multi-facility Master Leases, improved the quality of our portfolio by eliminating twenty-six poor performers, increased the cash flow-to-rent coverages at our assets, and strengthened Kindred's financial health and credit profile. Both companies exited the highest liability states for skilled nursing facilities and, most importantly, Ventas received cash to reinvest as part of its strategic diversification program.

Our disposition transactions with Kindred achieved goals that usually work in opposition:

- We sold our worst assets at high valuations and reinvested the proceeds accretively in higher-quality ElderTrust and Brookdale assets.
- We sold underperforming assets for premium pricing and simultaneously created value for the buyer, our tenant.

Similarly, in 2003, we were able to achieve both exceptional FFO per share growth and substantial balance sheet improvement. Although these financial objectives typically work inversely because higher leverage drives improved earnings, we accomplished both goals in 2003.

There will often be tension in our business from unpleasant surprises and the desire to attain objectives that seem at odds with each other. We strive to convert those challenges into opportunities and implement resolutions that achieve multiple goals.



The proceeds Ventas received from the disposition of Kindred's 26 underperforming assets funded the ElderTrust and Brookdale acquisitions.




Progress flows between

Tension & Resolution



Harmony is enhanced through coordination of the

Ensemble

A person is shown in silhouette, playing a large drum. In the background, there is a music stand with sheet music. The scene is dimly lit, with light coming from the sheet music and the drum's surface.

In 2003, each part of the Company worked in unity for the benefit of our shareholders. All of our employees contributed to deliver a 106 percent total shareholder return for the year.

To drive our acquisition efforts, we developed and launched our new marketing program, focused on long-term care providers. Our message – “Custom Capital Tailored for Growth” – conveys our ability to deliver unique, one-of-a-kind solutions to our provider partners to help them expand their business.

Additionally, our tax group designed the ideal sequencing of transactions and distributions to provide our shareholders and our Company with the benefits of thoughtful planning.

The Ventas management team showed stability and cohesiveness in 2003, working as an ensemble to deliver strong results. Our employees continue to demonstrate an unwavering commitment to our shareholders with tremendous productivity, integrity and effectiveness.



Performance

We seek sustained excellence

For the one- and three-year periods ended December 31, 2003, Ventas's 106 percent and 70 percent total shareholder returns made it the best performing REIT in the country. It has been a dynamic performance.

Our goal is to perform consistently in the top tier of all REITs and to be recognized as a leader in the healthcare REIT sector. We acknowledge the difficulty in achieving consistently superior risk-adjusted returns, and every year we seek to identify the potential opportunities and threats to good performance.

In doing so, we try to anticipate events and to identify different options should those events occur. We are also highly cognizant of our fallibility, and know that we cannot predict important trends, such as interest rate movements and healthcare reimbursements, with certainty. Therefore, we strive to remain flexible enough to respond quickly and appropriately to changing circumstances. In all our decisions, we seek to position the Company to succeed in different environments.

Our job is to be attentive to our environment and our business, and leverage our team's deep knowledge of healthcare, finance and real estate to find the balance that will give our shareholders the best results.

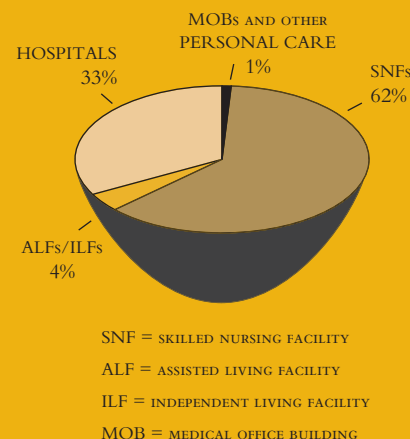
We also know that there are no shortcuts and that every year we start anew with the challenge of satisfying a very discriminating audience – you, our shareholders.

In 2004, we want to continue our practice of openly articulating our goals, and then systematically attaining them. Here is what we look forward to achieving:

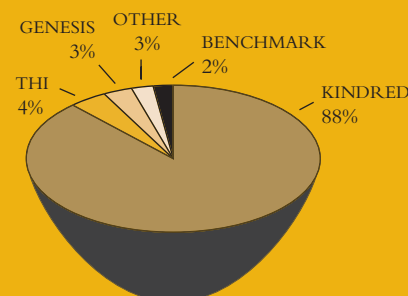
- *Increase 2004 dividend by 21.5 percent to \$1.30 per share*
- *Grow our recurring FFO per share*
- *Communicate openly, frequently and candidly with our constituents*
- *Integrate the ElderTrust acquisition*
- *Retain our financial strength through aggressive balance sheet management to drive down our cost of debt*
- *Identify and consummate selective opportunistic asset divestitures*
- *Implement our disciplined diversification strategy by expanding our high-quality portfolio*
- *Retain and expand our excellent management team*

At Ventas, our performance is focused on meeting and exceeding shareholder expectations.

Portfolio Composition by Asset Class (Estimated)*



Portfolio Composition by Tenant (Estimated)*



*2004 pro forma, assuming full-year effect of ElderTrust merger.

Form & Analysis

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Selected Financial Data

2003

The following selected financial data with respect to the Company should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto included in this Annual Report.

For the Years Ended December 31,	2003	2002	2001	2000	1999
Operating Data					
Rental Income	\$ 191,232	\$175,950	\$ 170,612	\$ 213,879	\$ 210,004
Gain on sale of Kindred common stock	9,039	5,014	15,425	—	—
General and administrative and other expenses	15,158	12,913	14,902	20,781	21,566
United States Settlement	—	—	—	96,493	—
Loss on extinguishment of debt	84	11,077	1,322	4,207	—
Interest expense (including swap ineffectiveness)	62,086	72,877	80,197	87,557	81,533
Interest on United States Settlement	4,943	5,461	4,592	—	—
Loss on uncollectible amounts due from tenants	—	—	—	44,273	31,647
Income (loss) before discontinued operations	96,734	37,354	46,862	(68,712)	38,601
Discontinued operations	66,019	28,352	3,704	3,260	3,934
Net income (loss)	162,753	65,706	50,566	(65,452)	42,535
Per Share Data					
Income (loss) per common share					
before discontinued operations, Basic	\$ 1.22	\$ 0.54	\$ 0.69	\$ (1.01)	\$ 0.57
Net income (loss) per common share, Basic	2.05	0.95	0.74	(0.96)	0.63
Income (loss) per common share					
before discontinued operations, Diluted	1.21	0.53	0.68	(1.01)	0.57
Net income (loss) per common share, Diluted	2.03	0.93	0.73	(0.96)	0.63
Dividends declared per common share	1.07	0.95	0.92	0.91	0.39
Other Data:					
Net cash provided by operating activities	\$ 137,366	\$116,385	\$ 79,893	\$ 85,338	\$ 103,580
Net cash provided by (used in) investing activities	159,701	(34,140)	2,760	5,359	371
Net cash provided by (used in) financing activities	(217,418)	(98,386)	(151,458)	(142,890)	35,305
FFO ⁽¹⁾	152,631	84,083	92,180	(24,221)	85,023
Weighted average shares outstanding, Basic	79,340	69,336	68,409	68,010	67,754
Weighted average shares outstanding, Diluted	80,094	70,290	69,363	68,131	67,989
Balance Sheet Data					
Real estate investments, net	\$ 697,745	\$828,802	\$ 806,336	\$ 848,545	\$ 894,791
Cash and cash equivalents	82,104	2,455	18,596	87,401	139,594
Kindred common stock	—	16,713	55,118	—	—
Total assets	812,850	895,780	941,859	981,145	1,071,199
Senior Notes payable and other debt	640,562	707,709	848,368	886,385	974,247
United States Settlement	—	43,992	54,747	96,493	—

(1) The Company considers funds from operations ("FFO") an appropriate measure of performance of an equity REIT and the Company uses the National Association of Real Estate Investment Trusts' ("NAREIT") definition of FFO. NAREIT defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States ("GAAP")), excluding gains (or losses) from sales of real estate property, plus depreciation for real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's financial performance or as an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity, nor is FFO indicative of sufficient cash flow to fund all of the Company's needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Funds from Operations."

Management's Discussion and Analysis of Financial Condition and Results of Operations

2003

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of Ventas, Inc. ("Ventas" or the "Company"). This discussion should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto included in this Annual Report.

Critical Accounting Policies and Estimates

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. The Company believes that the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its Condensed Consolidated Financial Statements.

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets, primarily consisting of its investments in real estate, for impairment indicators. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. The Company adjusts the net book value of leased properties and other long-lived assets to fair value, if the sum of the expected future cash flow or sales proceeds is less than book value. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment loss is warranted.

During the year ended December 31, 2003, the Company recorded a \$0.8 million impairment on one of its non-operating skilled nursing facilities. See "Note 5—Dispositions" to the Consolidated Financial Statements.

Legal Contingencies

The Company is currently involved in certain legal proceedings. As described further in "Note 13—Litigation" to the Consolidated Financial Statements, the Company is currently involved in certain legal proceedings and other matters that arose from the Company's operations prior to the time of the Company's spin-off of Kindred Healthcare, Inc. (together with its subsidiaries, "Kindred") on May 1, 1998 (the "1998 Spin Off") or relate to assets or liabilities transferred to Kindred in connection with the 1998 Spin Off. Under the various agreements (the "Spin Agreements") entered into by the Company and Kindred at the time of the 1998 Spin Off, as such agreements may have been amended and restated in connection with Kindred's emergence from bankruptcy on April 20, 2001, Kindred agreed to assume the defense, on behalf of the Company, of any claims that (a) were pending at the time of the 1998 Spin Off and which arose out of the ownership or operation of the healthcare operations or any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, or (b) were asserted after the 1998 Spin Off and which arose out of the ownership and operation of the healthcare operations or

any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, and to indemnify the Company for any fees, costs, expenses and liabilities arising out of such operations. Kindred is presently defending the Company in these matters, however, there can be no assurance that Kindred will continue to defend the Company in such matters or that Kindred will have sufficient assets, income and access to financing to enable it to satisfy such obligations. A change in Kindred's ability or willingness to perform under these commitments could have a Material Adverse Effect (defined below) on the Company.

The Company is also involved in other litigation as further described in "Note 13—Litigation" to the Consolidated Financial Statements. It is the opinion of management that, except as set forth in "Note 13—Litigation" to the Consolidated Financial Statements, the disposition of such matters will not, individually or in the aggregate, have a material adverse effect on the business, financial condition, results of operations and liquidity of the Company, and on the Company's ability to make distributions to its stockholders as required to continue to qualify as a real estate investment trust ("REIT") (a "Material Adverse Effect"). If management's assessment of the Company's liability with respect to these actions is incorrect, such matters could have a Material Adverse Effect on the Company.

Fair Value of Derivative Instruments

The valuation of derivative instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. Fair value for the Company's derivatives are verified with a third party consultant which utilizes pricing models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts in the Consolidated Financial Statements of the Company are subject to significant estimates which may change in the future.

Income Taxes

For the year ended December 31, 2003, a provision for income tax was not recorded due to the Company's ability and intention to distribute to its stockholders at least 100% of its estimated 2003 taxable income and to continue to qualify as a REIT.

The Company's estimation of its 2003 taxable income and the related quarterly dividends is based on a number of assumptions, including, but not limited to, the following: Kindred performs its obligations under the five master lease agreements pursuant to which the Company leases 41 of its hospitals and 186 of its skilled nursing facilities to Kindred (the "Kindred Master Leases"), and the Spin Agreements; the Company's other tenants perform their obligations under their leases with the Company; no capital transactions, acquisitions or divestitures occur; the Company's tax and accounting positions do not change; and the number of issued and outstanding shares of the Company's common stock remain relatively unchanged. These assumptions which impact the estimate of the Company's 2003 taxable income are subject to change and many are outside the control of the Company. If actual results vary from these assumptions, the Company's expectations regarding future dividends may change.

Although the Company intends to continue to qualify as a REIT, it is possible that economic, market, legal, tax or other considerations may cause the Company to fail, or elect not, to continue to qualify as a REIT. If the Company were to fail, or elect not, to continue to qualify as a REIT in any year, the Company would be subject to 35% federal income tax and to the applicable state and local income taxes for the affected years. Such tax obligations would have a Material Adverse Effect on the Company. Unless eligible for limited relief, if the Company failed, or revoked its election, to qualify as a REIT, the Company would not be eligible to elect again to be treated as a REIT before the fifth year after the year of such termination or revocation.

Results of Operations

Effective January 1, 2002 the Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144 (“SFAS 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 extends the reporting requirements of discontinued operations to include components of an entity that have either been disposed or are classified as held for sale. The operating results of properties, that were disposed of subsequent to January 1, 2002, have been reclassified as discontinued operations in the consolidated statements of operations for each of the three years ended December 31, 2003 included herein. See “Note 5—Dispositions” to the Consolidated Financial Statements.

In April 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 1, and Technical Correction” (“SFAS No. 145”). SFAS No. 4, “Reporting Gains and Losses from Extinguishment of Debt” (“SFAS No. 4”), required that gains and losses from the extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item. The provisions of SFAS No. 145 that related to the rescission of SFAS No. 4 required the Company to reclassify certain prior period items that no longer meet the extraordinary classification into continuing operations. Additionally, future gains and losses related to debt extinguishment may be required to be classified as income from continuing operations. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 became effective in fiscal years beginning after May 15, 2002. As required, on January 1, 2003 the Company adopted SFAS No. 145. In accordance with SFAS No. 145, the Company’s prior year financial statements have been reclassified to include gains and losses from extinguishment of debt in continuing operations. This reclassification has no effect on the Company’s net income.

Years Ended December 31, 2003 and 2002

Rental income for the year ended December 31, 2003 was \$191.2 million, of which \$183.2 million (95.8%) resulted from the Kindred Master Leases. The rental income from Kindred includes \$2.3 million related to the amortization of deferred revenue recorded as a result of the Company’s receipt of Kindred common stock (the “Kindred Common Stock”) under the Kindred Plan of Reorganization (the “Final Plan”) on April 20,

2001 and the receipt of \$4.5 million of additional future rent under the Kindred Master Leases. The rental income for the year ended December 31, 2002 was \$176.0 million, of which \$172.9 million (98.3%) resulted from Kindred Master Leases. The \$15.2 million increase in rental income reflects (a) the 3.5% increase in the rent paid under the Kindred Master Leases effective May 1, 2003, (b) the \$8.6 million increase on annualized rent on certain Kindred facilities effective July 1, 2003 and (c) \$6.0 million in additional rent earned during the year ended December 31, 2003 under the master lease (the “THI Master Lease”) with Trans Healthcare, Inc. (“THI”) entered into by the Company and THI on November 4, 2002.

Interest income from the real estate loan receivable was \$3.0 million and \$1.0 million for the years ended December 31, 2003 and 2002 respectively. This amount represents interest income received in connection with a mezzanine loan made by the wholly owned operating partnership of the Company, Ventas Realty, Limited Partnership (“Ventas Realty”) to THI on November 4, 2002 (the “THI Mezzanine Loan”).

Interest and other income totaled approximately \$1.7 million for the year ended December 31, 2003 as compared to approximately \$1.2 million for the year ended December 31, 2002. The increase is primarily attributable to the recovery of a previously written-off receivable by the Company. In addition, the Company had increased interest income due to higher cash balances on hand to invest during 2003, which was partially offset by reduced interest rates.

During the year ended December 31, 2003, the Company disposed of the remaining 920,814 shares of Kindred Common Stock and recognized a gain of \$9.0 million. During the year ended December 31, 2002, the Company disposed of 159,500 shares of Kindred Common Stock and recognized a gain of \$5.0 million. As of December 31, 2003, the Company did not own any shares of Kindred Common Stock.

Expenses totaled \$108.3 million for the year ended December 31, 2003 and included \$39.7 million of depreciation expense, \$61.8 million of interest on debt financing and \$4.9 million of interest on the Company’s settlement with the Department of Justice (“United States Settlement”). Expenses for the year included an offset of \$20.2 million resulting from the reversal of a previously recorded contingent liability. Expenses totaled \$148.0 million for the year ended December 31, 2002. Excluding the \$20.2 million offset, expenses for the year ended December 31, 2003 decreased \$19.6 million from the same period in 2002. The decrease resulted primarily from (a) a \$9.2 million decrease in interest expense, (b) a \$11.0 million expense in 2002 related to the loss from the early extinguishment of debt, (c) a \$1.6 million decrease in Swap ineffectiveness, and (d) a \$0.5 million decrease in the United States Settlement interest, offset by the net increase of \$2.2 million in general and administrative expense and professional fees and a \$1.3 million increase in depreciation expense.

During the year ended December 31, 2003, the Company reported an increase of approximately \$20.2 million to its operating results, reflecting the reversal of a previously recorded contingent liability. See “Note 10—Income Taxes” to the Consolidated Financial Statements.

Interest expense (inclusive of swap ineffectiveness) excluding the interest on the United States Settlement decreased \$9.2 million to \$62.1 million for the year ended December 31, 2003 from \$72.9 million for the year ended December 31, 2002. Interest expense includes \$4.1 million and \$3.7 million of amortized deferred financing costs for the years ended December 31, 2003 and 2002, respectively. Interest expense included in discontinued operations was \$3.1 million and \$5.7 million for the years ended December 31, 2003 and 2002, respectively. The decrease in interest expense from continuing and discontinued operations was due primarily to (a) a \$9.9 million decrease as a result of reduced debt balances, (b) a \$0.4 million decrease from reduced interest rates, (c) a \$1.6 million decrease in swap ineffectiveness (See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements), and (d) a \$1.5 million decrease from the amortization of a deferred gain recorded in connection with a 1999 transaction to shorten the maturity of the Company’s 1998 Swap (as defined below) which covered the period between July 1, 2003 and December 31, 2007.

Due to the lower variable rate debt balances incurred by the Company as a result of the sale of ten facilities on December 11, 2003, the Company entered into an agreement with the counterparty to the Company’s 2003–2008 Swap (defined below) to break \$120 million of the \$450 million notional amount of the 2003–2008 Swap in exchange for a payment to the counterparty of approximately \$8.6 million. In addition, the Company recognized \$3.4 million of a previously deferred gain recorded in connection with a 1999 transaction to shorten the maturity of the 1998 Swap. The \$5.2 million net expense which was previously reported in Accumulated Other Comprehensive Income on the Balance Sheet has been recognized as a net expense in the Statement of Operations. For the year ended December 31, 2002 the Company recorded an expense of \$5.4 million related to the loss on a \$350 million notional swap breakage (See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements).

The Company recorded swap ineffectiveness in the Statement of Operations to reflect the value of the excess of the notional amount of the 1998 Swap and 2003–2008 Swap over the Company’s anticipated variable rate debt balance in the future. The Company recorded \$0.3 million and \$1.9 million for the years ended December 31, 2003 and 2002, respectively.

In connection with the refinancing of its indebtedness under its prior credit agreement, in the quarter ended June 30, 2002, the Company incurred a loss from extinguishment of debt of \$6.9 million related to the write-off of unamortized deferred financing costs associated with its prior credit agreement. In December 2002, the Company incurred an additional \$4.2 million loss related to the repurchase of \$34.0 million in Senior Notes (as defined below) consisting of the write-off of unamortized

deferred financing costs and premiums paid to repurchase. In connection with the refinancing of a portion of its indebtedness under the 2000 Credit Agreement (defined below), the Company incurred a loss of approximately \$1.3 million related to the partial write-off of unamortized deferred financing fees associated with the 2000 Credit Agreement. See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements.

On June 30, 2003, the Company incurred a \$2.7 million expense relating to the early repayment of the United States Settlement that is reflected as the United States Settlement interest expense on the Company’s Consolidated Statements of Income for the year ended December 31, 2003. As required by GAAP, the United States Settlement has been, since inception, reported on the Company’s balance sheet at an amount that is less than the actual unpaid principal amount under the United States Settlement because the 6% interest rate payable was deemed “below market” at the time of the settlement. The \$2.7 million interest expense reflects the difference between the total amount paid by the Company in final repayment of the United States Settlement and the amount of the United States Settlement reflected on the Company’s balance sheet on the date of final repayment. There was no prepayment penalty or other charges upon early repayment of the United States Settlement.

General, administrative and professional fee expenses totaled \$15.2 million and \$12.9 million for the years ended December 31, 2003 and 2002, respectively. The increase is primarily attributable to costs associated with the Company’s initiative to develop and market its strategic diversification program, to improve its overall asset management system, and to attract and retain appropriate personnel to achieve its business objectives.

After discontinued operations of \$66.0 million, or \$0.82 per diluted share, net income for the year ended December 31, 2003 was \$162.8 million or \$2.03 per diluted share. After discontinued operations of \$28.4 million, or \$0.40 per diluted share, net income for the year ended December 31, 2002 was \$65.7 million or \$0.93 per diluted share. See “Note 5—Dispositions” to the Consolidated Financial Statements.

Discontinued Operations

In accordance with SFAS No. 144, the net income and gain on sale of real estate for properties sold subsequent to December 31, 2001 are reflected in the Consolidated Statements of Income as Discontinued Operations for all periods presented.

On December 11, 2003, the Company completed the sale of ten facilities to Kindred, which facilities had until closing been leased to Kindred under the Kindred Master Leases, for \$79 million in gross cash proceeds. A gain of \$54.9 million was recognized and included in Discontinued Operations for the year ended December 31, 2003. In addition, Kindred paid the Company a \$6.0 million lease termination fee with respect to such properties. The Company used a portion of the net proceeds from the sale and the lease termination fee to pay breakage costs relating to the termination of \$120 million notional amount of the 2003–2008 Swap. The remaining net proceeds were used to reduce the

Company's outstanding indebtedness and to fund future acquisitions. See "Recent Developments" and "Note 5—Dispositions" to the Consolidated Financial Statements. The assets sold by the Company to Kindred are: two hospitals located in Minnesota and Michigan, and eight skilled nursing facilities located in Kentucky, Massachusetts, Connecticut and Wisconsin. The hospitals contain 332 beds and the eight skilled nursing facilities contain 1,080 beds.

During the third quarter ended September 30, 2003, the Company sold a non-operating skilled nursing facility and received a non-binding proposal to purchase another non-operating skilled nursing facility. As a result, the Company recognized a gain of \$2.1 million on the sold facility and also recorded a \$0.8 million impairment on the other facility.

On June 30, 2003, the Company sold to Kindred 16 skilled nursing facilities, consisting of 15 properties in Florida and one property in Texas, which had previously been leased to Kindred under the Master Leases, for \$59.7 million in gross cash proceeds. A loss of \$5.3 million was recognized and included in Discontinued Operations for the quarter ended June 30, 2003. In addition, Kindred paid the Company a \$4.1 million lease termination fee with respect to such properties. The Company used a portion of the net proceeds from the sale and the lease termination fee to repay in full all unpaid amounts under the United States Settlement. The remaining net proceeds were used to reduce the Company's outstanding indebtedness. See "Note 5—Dispositions" to the Consolidated Financial Statements.

In the second quarter ended June 30, 2002, the Company sold a skilled nursing facility to an unrelated third party and recognized a gain of \$1.1 million which was included as a component of Discontinued Operations. On June 20, 2002, the Company sold a 64 licensed bed hospital facility located in Arlington, Virginia to an unrelated third party and recognized a gain of \$22.4 million which was also included as a component of Discontinued Operations. See "Note 5—Dispositions" to the Consolidated Financial Statements.

Years ended December 31, 2002 and December 31, 2001

Rental income for the year ended December 31, 2002 was \$176.0 million, of which \$172.9 million (98.3%) resulted from leases with Kindred. The rental income from Kindred includes \$2.3 million related to the amortization of deferred revenue recorded as a result of the Company's receipt of the Kindred Common Stock and \$4.5 million of additional future rent under the Kindred Master Leases. The rental income for the year ended December 31, 2001 was \$170.6 million, of which \$168.3 million (98.7%) resulted from leases with Kindred. The \$5.4 million increase in rental income consists primarily of (a) the 3.5% increase in the rent paid under the Kindred Master Leases effective May 1, 2002 and (b) additional rent received under the THI Master Lease. The Company reported two months of interest income from the THI Mezzanine Loan and a senior loan of \$1.0 million. The senior loan was sold in December 2002. See "Note 6—Mergers and Acquisitions" to the Consolidated Financial Statements.

Interest and other income totaled approximately \$1.2 million for the year ended December 31, 2002 as compared to approximately \$4.0 million for the year ended December 31, 2001. The decrease in interest income was primarily the result of lower cash balances and reduced interest rates.

Expenses totaled \$148.0 million for the year ended December 31, 2002 and included \$38.5 million of depreciation expense and \$72.9 million of interest on debt financing (inclusive of swap ineffectiveness) and \$5.5 million of interest on the United States Settlement. For the year ended December 31, 2001, expenses totaled \$141.0 million and included \$38.2 million of depreciation expense on real estate assets, \$80.2 million of interest on the Company's prior credit agreement (the "2000 Credit Agreement") and other debt and \$4.6 million of interest on the United States Settlement. The \$7.1 million increase in expense consists primarily of (a) \$9.8 million increase in the loss from the extinguishment of debt, (b) an additional expense of \$5.4 million related to the loss on a \$350 million notional swap breakage (see "Note 7—Borrowing Arrangements" to the Consolidated Financial Statements), (c) a \$0.9 million increase in interest on the United States Settlement which was entered into on April 20, 2001, (d) a \$0.3 million increase in depreciation and amortization which were offset by (x) a \$7.2 million decrease in interest expense and (y) a \$2.0 million decrease in general and administrative expenses and professional fees.

Interest expense (inclusive of swap ineffectiveness) excluding the interest on the United States Settlement decreased \$7.3 million to \$72.9 million for the year ended December 31, 2002 from \$80.2 million for the year ended December 31, 2001. \$3.1 million of the decrease is primarily a result of reduced principal balances and \$7.2 million relates to reduced interest rates resulting from the CMBS Transaction (as defined below) in December 2001, and the establishment of the 2002 Credit Agreement (as defined below) and the completion of the Senior Notes Offering (as defined below) in April 2002. \$1.1 million of the decrease is included in discontinued operations. The decrease is offset by a \$1.9 million "swap ineffectiveness" expense recognized in the Statement of Operations to reflect the value of the excess of the notional amount of the 1998 Swap and 2003–2008 Swap over the Company's anticipated variable rate debt balance in the future. See "Note 7—Borrowing Arrangements" to the Consolidated Financial Statements.

Professional fees totaled approximately \$3.2 million for the year ended December 31, 2002, as compared to \$4.7 million for the year ended December 31, 2001. The decrease relates primarily to the reduction in professional fees incurred as a result of the Company's stabilized operations in 2002 following Kindred's emergence from bankruptcy in 2001.

During the year ended December 31, 2001, the Company recorded a provision for taxes on the 10% of its estimated 2001 taxable income that the Company did not distribute. In the third quarter of 2002, the Company filed its 2001 federal income tax return on which it elected to apply certain 2002 dividend

payments in excess of its 2002 estimated taxable net income against such 2001 undistributed taxable net income. As a result, the Company recorded a \$2.2 million tax benefit in the third quarter ended September 30, 2002.

In connection with the refinancing of its indebtedness under the 2000 Credit Agreement, the Company incurred a loss of \$6.9 million related to the write-off of unamortized deferred financing costs associated with the 2000 Credit Agreement. In December 2002, the Company incurred an additional \$4.2 million loss related to the repurchase of \$34.0 million in Senior Notes consisting of the write-off of unamortized deferred financing costs and premiums paid to repurchase. In connection with the refinancing of a portion of its indebtedness under the 2000 Credit Agreement, the Company incurred a loss of approximately \$1.3 million related to the partial write-off of unamortized deferred financing fees associated with the 2000 Credit Agreement. See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements.

During the year ended December 31, 2002, the Company disposed of a total of 159,500 shares of Kindred Common Stock for an average net price of \$43.39 per share and recognized a gain of \$5.0 million. The Company applied net proceeds of \$7.0 million as a prepayment of the Company’s indebtedness under the 2002 Credit Agreement. As of December 31, 2002, the Company owned 920,814 shares of Kindred Common Stock with a market value of \$16.7 million, or \$18.15 per share. The Company disposed of 418,186 shares of Kindred Common Stock in the fourth quarter of 2001 and recognized a gain of \$15.4 million on the dispositions.

Discontinued Operations increased \$24.6 million to \$28.4 million for the year ended December 31, 2002. The increase is primarily attributable to a \$22.4 million gain recognized in conjunction with the sale of a 64 licensed bed hospital facility on June 30, 2002. See “Note 5—Dispositions” to the Consolidated Financial Statements.

Funds from Operations

Funds from operations (“FFO”) for the years ended December 31, 2003, 2002 and 2001 totaled \$152.6 million, \$84.1 million and \$92.2 million, respectively. FFO for the five years ended December 31, 2003 is summarized in the following table (in thousands):

For the years ended December 31,	2003	2002	2001	2000	1999
Net income (loss)	\$162,753	\$ 65,706	\$50,566	\$(65,452)	\$42,535
Adjustments:					
Depreciation on real estate assets	39,436	38,243	38,089	38,303	38,071
Realized gain on sale of real estate assets	—	(64)	(290)	(957)	(254)
Other items:					
Discontinued operations					
Real estate depreciation—discontinued	2,223	3,648	3,815	3,885	4,671
Gain on sale of real estate	(51,781)	(23,450)	—	—	—
Funds from operations	\$152,631	\$ 84,083	\$92,180	\$(24,221)	\$85,023

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

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

Asset/Liability Management

Asset/liability management is a key element of the Company’s overall risk management program. The objective of asset/liability management is to support the achievement of business strategies while maintaining appropriate risk levels. The asset/liability management process focuses on a variety of risks, including market risk (primarily interest rate risk) and credit risk. Effective management of these risks is an important determinant of the absolute levels and variability of FFO and net worth. The following discussion addresses the Company’s integrated management of assets and liabilities, including the use of derivative financial instruments. The Company does not use derivative financial instruments for speculative purposes.

Market Risk

The following discussion of the Company's exposure to various market risks contains "forward-looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates as well as other factors, actual results could differ materially from those projected in such forward-looking information.

The Company receives revenue primarily by leasing its assets under leases that are long-term triple net leases in which the rental rate is generally fixed with annual escalators, subject to certain limitations. The Company also earns revenue from the THI Mezzanine Loan. The Company's obligations under the 2002 Credit Agreement are (and its obligations under the 2000 Credit Agreement were) floating rate obligations whose interest rate and related monthly interest payments vary with the movement in LIBOR. See "Note 7—Borrowing Arrangements" to the Consolidated Financial Statements. The general fixed nature of the Company's assets and the variable nature of the Company's obligations create interest rate risk. If interest rates were to rise significantly, the Company's lease and other revenue might not be sufficient to meet its debt obligations. In order to mitigate this risk, in connection with the 1998 Spin Off, the Company entered into a swap (the "1998 Swap") to effectively convert most of its floating rate debt obligations to fixed rate debt obligations. Interest rate swaps generally involve the exchange of fixed and floating rate interest payments on an underlying notional amount. The 1998 Swap expired on June 30, 2003. See "Note 7—Borrowing Arrangements—Senior Notes Offering" to the Consolidated Financial Statements.

On September 28, 2001, the Company entered into an interest rate swap agreement (the "2003–2008 Swap") in the notional amount of \$450.0 million to hedge floating rate debt for the period between July 1, 2003 and June 30, 2008. The 2003–2008 Swap is treated as a cash flow hedge for accounting purposes. The "2003–2008 Swap" is with a highly rated counterparty in which the Company pays a fixed rate of 5.385% and receives LIBOR from the counterparty. On December 11, 2003, the notional amount of the swap for the period December 11, 2003 through June 29, 2006 was reduced from \$450 million to \$330 million. See "Note 7—Borrowing Arrangements" to the Consolidated Financial Statements. There are no collateral requirements under the 2003–2008 Swap. The notional amount of the 2003–2008 Swap is scheduled to decline from \$330.0 million as follows:

Notional Amount	Date
\$300,000,000	June 30, 2006
150,000,000	June 30, 2007
—	June 30, 2008

In accordance with the terms of the CMBS Loan Agreement (as defined below), on December 11, 2001, Ventas Finance I, LLC ("Ventas Finance") purchased an interest rate cap from a highly rated counterparty (the "Buy Cap"). See "—Liquidity and Capital Resources—Credit Facility" and "Note 7—Borrowing

Arrangements" to the Consolidated Financial Statements. Because the Company already hedged its consolidated interest rate risk through the 1998 Swap and the 2003–2008 Swap, on December 11, 2001 the Company sold an interest rate cap (the "Sell Cap") for the same notional value (\$225.0 million) and on the same terms (5 year amortizing 8% LIBOR cap) as the Buy Cap. If LIBOR should exceed the 8% cap, the Sell Cap would require the Company to pay the counterparty and the Buy Cap would require the counterparty to pay Ventas Finance for the interest accruing in excess of the 8% LIBOR cap. The Buy Cap and the Sell Cap are shown separately as an asset and a liability on the Company's balance sheet, respectively. The Company believes that the economic substance of the Buy Cap offsets the net cash flow exposure of the Sell Cap.

When interest rates rise, the interest rate swaps increase in fair value to the Company and when interest rates fall, the interest rate swaps decline in fair value to the Company. Similarly, when interest rates increase, the Buy Cap increases in fair value and the Sell Cap decreases in fair value. As of December 31, 2003, interest rates had fallen and the 2003–2008 Swap was in an unrealized loss position to the Company. Generally, interest rate swap agreements with longer terms evidence greater dollar values of variation when interest rates change. To highlight the sensitivity of the interest rate swaps and caps 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, 2003:

	2003–2008 Swap	Sell Cap	Buy Cap
Notional Amount	\$330,000,000	\$220,111,775	\$220,111,775
Fair Value to the Company	(27,867,784)	(389,572)	389,572
Fair Value to the Company Reflecting Change in Interest Rates:			
–100 BPS	(40,364,325)	(106,444)	106,444
+100 BPS	(15,906,076)	(980,694)	980,694

The Company paid \$19.2 million under the 1998 Swap and 2003–2008 Swap during the year ended December 31, 2003. Assuming that interest rates do not change, the Company estimates that it will pay approximately \$13.3 million on the 2003–2008 Swap during the year ended December 31, 2004.

The carrying value of the Company's variable rate debt approximates fair value. There is no cash flow impact from the fluctuation of interest rates since the Company currently hedges 100% of its variable rate debt. The fair value of the fixed rate debt is \$405.6 million based on open market trading activity provided by a third party.

Credit Risk

As a result of the 1998 Spin Off, the Company has a significant concentration of credit risk with Kindred under the Kindred Master Leases. For the years ended December 31, 2003 and 2002

lease rental revenues from Kindred totaled \$183.2 million or 94.3% and \$172.9 million or 97.7%, respectively, of the Company's total real estate revenue for the period. For the year ended December 31, 2001, lease rental revenues from Kindred comprised 98.7% of the Company's total lease rental revenues. Accordingly, Kindred's financial condition and ability to meet its rent obligations will largely determine the Company's rental revenues and its ability to make distributions to its stockholders. In addition, any failure by Kindred to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to enlist and maintain patients in its facilities. Kindred, as well as certain other tenants of the Company, have experienced financial difficulty and/or filed for bankruptcy. Kindred emerged from bankruptcy on April 20, 2001. Despite Kindred's emergence from bankruptcy, there can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy its obligations under the Kindred Master Leases. Since, as of December 31, 2003, the Company derived in excess of 95% of its rental revenues from Kindred and since the Kindred Master Leases are triple net leases under which Kindred is responsible for all insurance, taxes and maintenance and repair expenses required in connection with the leased properties, the inability or unwillingness of Kindred to satisfy its obligations under the Kindred Master Leases would have a material adverse effect on the condition of the Kindred leased properties, as well as a Material Adverse Effect on the Company. See "Business—Risk Factors—The Company is dependent on Kindred; Kindred's inability or unwillingness to satisfy its obligations under its agreements with the Company could significantly harm the Company and its ability to service its indebtedness and other obligations and to make distributions to its stockholders as required to continue to qualify as a REIT" and "Note 4—Concentration of Credit Risk" to the Consolidated Financial Statements. The Company monitors its credit risk under its lease agreements with its tenants by, among other things, reviewing and analyzing (a) information regarding the healthcare industry generally, (b) publicly available information regarding tenants, (c) information provided by the tenants and borrowers under the Company's lease and other agreements, and (d) discussion with tenants, borrowers and their representatives.

Liquidity and Capital Resources

During 2003 the Company's principal sources of liquidity came from working capital, cash flow from operations, borrowings under the 2002 Credit Agreement, disposition of real estate assets, sale of Kindred common stock, proceeds from stock option exercises, and disbursements from a previously established tax escrow.

The Company intends to continue to fund future investments through cash flow from operations, borrowings under the 2002 Credit Agreement, disposition of assets and issuance of secured or unsecured long-term debt or other securities. As of December 31, 2003 the Company had cash and cash equivalents of \$82.1 million, restricted cash of \$7.6 million (comprised of \$5.0 million of reserves under the CMBS Loan (as defined below), escrows under the THI Master Lease and the Company's portion of the amounts on deposit pursuant to the Tax Refund Escrow Agreement with Kindred (the "Tax Refund Escrow Agreement")), and unused

revolving credit availability of \$261.8 million under its revolving credit facility ("Revolving Credit Facility") established by the 2002 Credit Agreement. Through the pledge of additional property as collateral to the lenders under the 2002 Credit Agreement, the Company, as of December 31, 2003, could have increased revolving credit availability to \$290.0 million.

Net cash provided by operations totaled \$137.4 million, \$116.4 million and \$79.9 million for the years ended December 31, 2003, 2002 and 2001, respectively. The increase in 2003 cash flows is primarily a result of (a) increases from rent escalators, (b) proceeds from lease termination fees, (c) release of funds from a previously established escrow account (see "Note 10—Income Taxes" to the Consolidated Financial Statements) and (d) reduction of interest expense.

Net cash provided by investing activities for the year ended December 31, 2003 was \$159.7 million. The Company received \$139.2 million in proceeds from the disposal of real estate properties, which includes (a) \$58.9 million from the sale of 16 properties to Kindred in June 2003, (b) \$78.0 million from the sale of ten facilities to Kindred in December 2003 and (c) \$2.3 million from the sale of a non-operating skilled nursing facility. See "Note 5—Dispositions" to the Consolidated Financial Statements. Investing activities for the year ended December 31, 2003 also included \$20.2 million in proceeds from the sale of the Kindred Common Stock. Net cash used in investing activities for the year ended December 31, 2002 was \$34.1 million. The Company invested \$53.0 million in real property and \$64.9 million in loan financing from the THI Transaction (defined in "Note 6—Mergers and Acquisitions—Transactions with Trans Healthcare, Inc." to the Consolidated Financial Statements) which was financed through borrowings under the 2002 Credit Agreement. Investing activities also included \$49.0 million in proceeds from the sale of the THI Senior Loan (defined in "Note 6—Mergers and Acquisitions—Transactions with Trans Healthcare, Inc." to the Consolidated Financial Statements), \$28.6 million from the sale of real property and \$7.0 million from the sale of Kindred Common Stock.

Net cash used in financing activities totaled \$217.4 million for the year ended December 31, 2003. The uses included (a) an aggregate principal payment of \$67.1 million on the 2002 Credit Agreement and the CMBS Loan, (b) \$37.4 million payment in 2003 for the settlement of the repurchase of the Senior Notes that occurred on December 31, 2002, (c) \$8.6 million in Swap breakage fees, (d) full repayment on the United States Settlement of \$46.6 million and (e) \$80.2 million of cash dividend payments. The uses were offset by \$22.6 million of proceeds from the issuance of common stock as a result of exercise of stock options. Net cash used in financing totaled \$98.4 million for the year ended December 31, 2002. The uses include (a) a net of \$106.7 million payment of principal on the 2000 Credit Agreement, the 2002 Credit Agreement and the CMBS Loan, (b) \$15.1 million in financing fees, (c) \$12.8 million in swap breakage costs, (d) \$50.1 million of cash dividend payments, and (e) \$10.8 million of principal payments on the United States Settlement. The financing uses are offset by net proceeds from

the issuance of common stock of \$97.2 million, including the net proceeds of \$93.6 million from the issuance of nine million shares (the “Equity Offering”) and \$3.6 million from the exercise of stock options. Net cash used in financing activities for the year ended December 31, 2001 totaled \$151.5 million and included payments of principal on the 2000 Credit Agreement in the aggregate amount of \$263.0 million. \$212.8 million of the payments were funded from the CMBS Transaction (as defined below), which generated gross proceeds of \$225 million. The 2001 financing activities also included \$6.9 million in financing costs, \$41.7 million payment on the United States Settlement, and \$65.3 million of cash dividend payments.

On December 31, 2002, the Company repurchased through open market purchases \$34.0 million principal amount of Senior Notes out of the proceeds of the Equity Offering, consisting of \$783,000 of 2009 Senior Notes (as defined below) and \$33,179,000 of 2012 Senior Notes (as defined below). The total purchase price aggregated \$37.4 million. As a result of these purchases, the Company reported a loss from the extinguishment of debt of \$4.2 million in the fourth quarter ended December 31, 2002.

On February 5, 2004, the Company consummated a merger transaction in which the Company acquired all of the outstanding common stock of ElderTrust in an all cash transaction valued at \$184 million. See “Note 6—Mergers and Acquisitions” to the Consolidated Financial Statements.

On January 28, 2004, the Company entered into 14 definitive purchase agreements with third party sellers to purchase a total of 14 independent and assisted living facilities for \$115 million. On January 28, 2004, the Company completed its acquisition of four of the 14 properties for a purchase price of \$37 million. See “Note 6—Mergers and Acquisitions” to the Consolidated Financial Statements.

CMBS Transaction

On December 12, 2001, the Company raised \$225.0 million in gross proceeds from the completion of a commercial mortgage backed securitization transaction (the “CMBS Transaction”). Under a Loan and Security Agreement dated as of December 12, 2001 (the “CMBS Loan Agreement”), Ventas Finance obtained a loan in the principal amount of \$225.0 million (the “CMBS Loan”) from Merrill Lynch Mortgage Lending, Inc., as lender (the “CMBS Lender”). The CMBS Loan bears interest at a weighted average of LIBOR plus 1.4853%. Principal of and interest on the CMBS Loan is payable monthly. The CMBS Loan matures on December 9, 2006, at which time a principal balloon payment of approximately \$206.3 million will be due, assuming all scheduled amortization payments are made and no prepayments are made on the CMBS Loan. The CMBS Loan may be prepaid in whole or in part at any time and from time to time without penalty or premium.

The CMBS Loan is secured by liens on 39 skilled nursing facilities (the “CMBS Properties”) transferred by Ventas Realty to Ventas Finance and leased to Kindred under a Kindred Master Lease (the “Kindred CMBS Master Lease”). Except for certain customary

exceptions, the CMBS Loan is non-recourse to Ventas Finance and the Company. See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements.

The 2002 Credit Agreement

On April 17, 2002 (the “2002 Refinancing Date”), the Company, as guarantor, and Ventas Realty, as borrower, entered into a Second Amended and Restated Credit, Security and Guaranty Agreement (the “2002 Credit Agreement”). Under the 2002 Credit Agreement, Ventas Realty obtained a \$350.0 million credit facility (the “Total Commitments”) consisting of a \$60.0 million term loan (the “Tranche B Term Loan”) and the \$290.0 million Revolving Credit Facility. The 2002 Credit Agreement also permits Ventas Realty to obtain an additional term loan in an amount of not less than \$50.0 million, but not more than the remaining unused portion of the Total Commitments, subject to the conditions set forth in the 2002 Credit Agreement (the “Tranche C Term Loan”). Subject to the terms of, and the satisfaction of certain conditions set forth in, the 2002 Credit Agreement, Ventas Realty has the option to increase the Total Commitments (in the form of term and/or revolving loans) to an amount not to exceed \$450.0 million.

Borrowings outstanding under the 2002 Credit Agreement bear interest at an Applicable Percentage over either (i) a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate (as defined in the 2002 Credit Agreement) in effect for the relevant period, plus one half of one percent (0.5%) and (b) the Prime Rate (as defined in the 2002 Credit Agreement) in effect for the relevant period (the “Base Rate”) or (ii) a fluctuating LIBOR-based rate per annum (the “Eurodollar Rate”). The Applicable Percentage varies based on the Company’s consolidated leverage ratio (as defined in the 2002 Credit Agreement). With respect to Tranche B Term Loans, the Applicable Percentage is (a) 2.50% for loans bearing interest at the Eurodollar Rate, and (b) 1.00% for loans bearing interest at the Base Rate. With respect to revolving loans under the Revolving Credit Facility, from the inception of the loan through April 6, 2003, the Applicable Percentages were 2.75% for Eurodollar Rate loans and 1.25% for Base Rate loans. Because of the Company’s improved credit statistics, effective April 7, 2003, the Applicable Percentages under the Revolving Credit Facility were reduced to 2.50% for Eurodollar Rate loans and 1.00% for Base Rate loans.

Loans outstanding under the 2002 Credit Agreement are pre-payable without premium or penalty, provided that loans bearing interest at the Eurodollar Rate are subject to customary “break-age” costs if repaid prior to the end of an interest period.

The Company (and any other owner of mortgaged property securing Ventas Realty’s obligations under the 2002 Credit Agreement from time to time) has guaranteed Ventas Realty’s obligations under the 2002 Credit Agreement. Such obligations are secured by liens on certain of Ventas Realty’s real property assets and any related leases, rents and personal property, and, at Ventas Realty’s option, may be secured by certain cash collateral from time to time. Currently, 54 real properties owned by Ventas Realty are mortgaged to secure the 2002 Credit Agreement

(the “Borrowing Base Properties”). As of December 31, 2003, the carrying value of the 54 Borrowing Base Properties was \$161.6 million. All 54 Borrowing Base Properties are leased to Kindred pursuant to Master Lease No. 1.

The Borrowing Base under the 2002 Credit Agreement is, as determined at any time, an amount equal to the sum of (i) sixty-five percent (65%) of the aggregate appraised property value of the Borrowing Base Properties, plus (ii) one hundred percent (100%) of amounts on deposit in certain cash collateral or pledged accounts. The aggregate principal amount of the obligations outstanding under the 2002 Credit Agreement (including the revolving loans under the Revolving Credit Facility, the Tranche B Term Loan and the Tranche C Term Loan) may not at any time exceed the Borrowing Base. As of December 31, 2003, the Borrowing Base was \$320.9 million, and the outstanding aggregate principal balance of the obligations under the 2002 Credit Agreement was \$59.1 million, and the remaining availability under the 2002 Credit Agreement was \$261.8 million. Ventas Realty may at any time include additional real estate assets (which must satisfy certain conditions set forth in the 2002 Credit Agreement) in the Borrowing Base to increase its remaining availability, up to the Total Commitments. Subject to the terms and conditions set forth in the 2002 Credit Agreement, Ventas Realty may also obtain a release of various Borrowing Base Properties from the liens and security interests encumbering such properties. See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements.

Senior Notes Offering

On the 2002 Refinancing Date, Ventas Realty and Ventas Capital Corporation, a wholly owned subsidiary of Ventas Realty (collectively, the “Issuers”), completed the offering (the “Senior Notes Offering”) of 8¾% Senior Notes due 2009 in the aggregate principal amount of \$175.0 million (the “2009 Senior Notes”) and 9% Senior Notes due 2012 in the aggregate principal amount of \$225.0 million (the “2012 Senior Notes” and, together with the 2009 Senior Notes, the “Senior Notes”). The 2009 Senior Notes and the 2012 Senior Notes were issued under separate Indentures, each dated as of April 17, 2002 (collectively, the “Indentures”) and mature on May 1, 2009 and May 1, 2012, respectively. As of December 31, 2003, \$174.2 million principal amount was outstanding under the 2009 Senior Notes and \$191.8 million principal amount was outstanding under the 2012 Senior Notes.

The Indentures contain a number of restrictive covenants. See “Note 7—Borrowing Arrangements” to the Consolidated Financial Statements.

Dividends

In order to continue to qualify as a REIT, the Company must make annual distributions to its stockholders of at least 90% of its “REIT taxable income” (excluding net capital gain). The Company declared dividends greater than 100% of its estimated taxable income for 2003. The Company intends to pay a dividend for 2004 greater than 100% of the Company’s taxable income for 2004.

It is expected that the Company’s REIT taxable income will be less than its cash flow due to the allowance of depreciation and other non-cash deductions in computing REIT taxable income. The Company anticipates that it generally will have sufficient cash or liquid assets to enable it to satisfy the 90% distribution requirement. It is possible, however, that the Company, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement or to distribute such greater amount as may be necessary to avoid income and excise taxation.

Capital Expenditures and Property Acquisitions

Capital expenditures to maintain and improve the leased properties generally will be incurred by the Company’s tenants. Accordingly, the Company does not believe that it will incur any major expenditures in connection with the leased properties. After the terms of the leases expire, or in the event that the tenants are unable or unwilling to meet their obligations under the leases, the Company anticipates that any expenditures relating to the maintenance of leased properties for which it may become responsible will be funded by cash flows from operations or through additional borrowings. To the extent that unanticipated expenditures or significant borrowings are required, the Company’s liquidity may be affected adversely. The Company’s ability to make expenditures and borrow funds is restricted by the terms of the 2002 Credit Agreement and the Indentures.

Shelf Registration Statement and Equity Offering

On June 19, 2002, the Company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission relating to \$750.0 million of common stock, preferred stock, debt securities, depository shares and warrants. The registration statement became effective on July 8, 2002 and was amended August 13, 2003. As of December 31, 2003, \$651.0 million of these securities remained available for offering under the shelf registration statement.

During the fourth quarter ended December 31, 2002, the Company commenced and completed an equity offering of the Company’s common stock with Tenet Healthcare Corporation (“Tenet”). Immediately prior to the completion of the Equity Offering, Tenet held 8,301,067 shares of the Company’s common stock. The Equity Offering consisted of 9,000,000 newly issued shares of common stock sold by the Company and 8,301,067 shares of the Company’s common stock owned and sold by Tenet, all priced at \$11.00 per share. After the Equity Offering, Tenet held no shares of the Company’s common stock. The net proceeds received by the Company from its sale of its newly issued common stock were \$93.6 million and were used to repay outstanding indebtedness, including the indebtedness incurred by the Company to invest in the THI Transaction.

Agreement of Indemnity—Third-Party Leases and Contracts

In connection with the 1998 Spin Off, the Company assigned its former third party lease obligations and third party guarantee agreements to Kindred. The Company believes that the aggregate exposure under its third party lease obligations is approximately

\$31.2 million. The Company believes that it has no material exposure under the third party guarantee agreements. See “Note 11—Commitments and Contingencies” to the Consolidated Financial Statements.

Other

In the fourth quarter of 2000, the Company recorded a \$96.5 million charge related to the United States Settlement. Under the United States Settlement, the Company was required to pay \$103.6 million to the federal government, of which \$34.0 million was paid on April 20, 2001, the date the Final Plan became effective. The balance of \$69.6 million bore interest at 6% per annum and was payable in equal quarterly installments over a five-year term commencing on June 30, 2001. The charge in the fourth quarter of 2000 was discounted for accounting purposes based on an imputed borrowing rate of 10.75%. The Company was required to pay \$16.2 million in principal and interest in 2003 under the United States Settlement. On June 30, 2003, the Company prepaid in full the principal amount owed on the United States Settlement. There was no prepayment penalty or other charges payable on account of the early repayment.

The Company has outstanding loans with interest provisions of approximately \$3.8 million, net of repayments, to certain current and former executive officers of the Company to finance the income taxes payable by them as a result of the vesting of common stock of the Company awarded as compensation to such officers and the 1998 Spin Off. The loans are payable over periods ranging from a four to a ten year period beginning in each case on the date such loan was made. See “Note 15—Related Party Transactions” to the Consolidated Financial Statements.

In connection with the Company’s spin off of Kindred in 1998, the Company assigned its former third party lease obligations to Kindred (the “Third Party Leases”). Kindred and its subsidiaries have agreed to indemnify and hold the Company harmless from and against all claims against the Company arising out of the Third Party Leases. The Company does not expect to incur any liability under the Third Party Leases. However, there can be no assurance Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that it will continue to honor, its obligations under the indemnity agreement relating to the Third Party Leases. See “Note 11—Commitments and Contingencies” to the Consolidated Financial Statements.

Contractual Obligations

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

Payments due by Period	Total	2004	2005	2006	2007	2008	Thereafter
Long-Term Debt obligations ⁽¹⁾⁽²⁾	\$ 905,780	\$ 44,238	\$48,338	\$257,847 ⁽³⁾	\$91,475	\$32,508	\$431,374 ⁽⁴⁾
Obligations under the 2003–2008 Swap ⁽²⁾	27,868	13,258	8,442	4,428	1,511	229	—
ElderTrust Transaction obligation ⁽⁵⁾	100,607	100,607					
Brookdale Transaction obligation	111,880	111,880					
Total	\$1,146,135	\$269,983	\$56,780	\$262,275	\$92,986	\$32,737	\$431,374

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

(2) Interest on variable rate debt and obligations under the 2003–2008 Swap were based on forward rates obtained as of December 31, 2003.

(3) Includes a \$206 million balloon payment due December 2006 on the CMBS Loan.

(4) Consists of the maturity of \$174.2 million of Senior Notes due in April 2009 and \$191.8 million of Senior Notes due 2012.

(5) This amount represents the equity portion of the ElderTrust Transaction which was consummated on February 5, 2004.

Report of Independent Auditors

2003

Stockholders and Board of Directors

Ventas, Inc.

We have audited the accompanying consolidated balance sheets of Ventas, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ventas, Inc. at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company changed its method of accounting for gains and losses on extinguishment of debt in 2003, changed its method of accounting for disposal of long-lived assets in 2002, and changed its method of accounting for derivative instruments in 2001.

Ernst & Young LLP

Chicago, Illinois
February 5, 2004

Consolidated Balance Sheets

2003

December 31, 2003 and 2002

(In thousands, except per share amounts)

	2003	2002
Assets		
Real estate investments:		
Land	\$ 104,300	\$ 119,559
Building and improvements	985,881	1,101,847
	1,090,181	1,221,406
Accumulated depreciation	(408,891)	(409,132)
Total net real estate property	681,290	812,274
Loan receivable, net	16,455	16,528
Total net real estate investments	697,745	828,802
Cash and cash equivalents	82,104	2,455
Restricted cash	7,575	19,953
Investment in Kindred Common Stock	—	16,713
Deferred financing costs, net	13,465	17,704
Notes receivable from employees	3,772	4,139
Other	8,189	6,014
Total assets	\$ 812,850	\$ 895,780
Liabilities and stockholders' equity (deficit)		
Liabilities:		
Senior Notes payable and other debt	\$ 640,562	\$ 707,709
United States Settlement	—	43,992
Securities settlement due (purchase of Senior Notes)	—	37,366
Deferred revenue	15,308	18,883
Interest rate swap agreements	27,868	47,672
Accrued dividend	21,614	16,596
Accrued interest	5,821	7,237
Accounts payable and other accrued liabilities	14,562	25,402
Other liabilities—disputed tax refunds and accumulated interest	406	14,156
Deferred income taxes	30,394	30,394
Total liabilities	756,535	949,407
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, 10,000 shares authorized, unissued	—	—
Common stock, \$0.25 par value; authorized 180,000 shares; issued 82,608 shares in 2003 and 2002	20,652	20,652
Capital in excess of par value	162,466	191,779
Unearned compensation on restricted stock	(748)	(793)
Accumulated other comprehensive income (loss)	(18,294)	(26,116)
Retained earnings (deficit)	(56,790)	(134,279)
	107,286	51,243
Treasury stock—1,817 shares in 2003 and 3,730 shares in 2002	(50,971)	(104,870)
Total stockholders' equity (deficit)	56,315	(53,627)
Total liabilities and stockholders' equity (deficit)	\$ 812,850	\$ 895,780

See accompanying notes.

Consolidated Statements of Income

2003

For the Years Ended December 31, 2003, 2002 and 2001
(In thousands, except per share amounts)

	2003	2002	2001
Revenues:			
Rental income	\$191,232	\$175,950	\$170,612
Interest income from loan receivable	3,036	995	—
Gain on sale of Kindred Common Stock	9,039	5,014	15,425
Interest and other income	1,696	1,178	4,004
Total revenues	205,003	183,137	190,041
Expenses:			
General and administrative	12,724	9,763	10,244
Professional fees	2,434	3,150	4,658
Amortization of restricted stock grants	1,274	1,853	1,734
Depreciation	39,720	38,459	38,223
Net loss on swap breakage	5,168	5,407	—
Swap ineffectiveness	296	1,850	—
Loss on extinguishment of debt	84	11,077	1,322
Interest	61,790	71,027	80,197
Interest on United States Settlement	4,943	5,461	4,592
Reversal of contingent liability	(20,164)	—	—
Total expenses	108,269	148,047	140,970
Income before provision (benefit) for income taxes, gain on disposal of real estate assets and discontinued operations	96,734	35,090	49,071
Provision (benefit) for income taxes	—	(2,200)	2,499
Income before gain on disposal of real estate assets and discontinued operations	96,734	37,290	46,572
Net gain on real estate disposals	—	64	290
Income before discontinued operations	96,734	37,354	46,862
Discontinued operations	66,019	28,352	3,704
Net income	\$162,753	\$ 65,706	\$ 50,566
Earnings per common share:			
Basic:			
Income before discontinued operations	\$ 1.22	\$ 0.54	\$ 0.69
Net income	\$ 2.05	\$ 0.95	\$ 0.74
Diluted:			
Income before discontinued operations	\$ 1.21	\$ 0.53	\$ 0.68
Net income	\$ 2.03	\$ 0.93	\$ 0.73
Weighted average number of shares outstanding, basic	79,340	69,336	68,409
Weighted average number of shares outstanding, diluted	80,094	70,290	69,363

See accompanying notes.

Consolidated Statements of Stockholders' Equity (Deficit)

2003

For the Years Ended December 31, 2003, 2002, and 2001 (In thousands, except per share amounts)	Common Stock Par Value	Capital in Excess of Par Value	Unearned Compensation On Restricted Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Treasury Stock	Total
Balance at January 1, 2001	\$18,402	\$132,228	\$(1,338)	\$ —	\$(121,323)	\$(145,483)	\$(117,514)
Comprehensive Income							
Net income	—	—	—	—	50,566	—	50,566
Cumulative effect from change in accounting for derivatives	—	—	—	17,476	—	—	17,476
Unrealized loss on interest rate swaps	—	—	—	(23,301)	—	—	(23,301)
Unrealized gain on Kindred Common Stock	—	—	—	41,999	—	—	41,999
Comprehensive Income							86,740
Dividends to common stockholders —							
\$0.92 per share	—	—	—	—	(63,331)	—	(63,331)
Proceeds from issuance of shares							
for Stock Plans, net	—	(3,383)	—	—	—	3,936	553
Grant of restricted stock	—	(6,377)	(1,396)	—	—	8,517	744
Amortization of restricted stock grants	—	—	1,734	—	—	—	1,734
Balance at December 31, 2001	18,402	122,468	(1,000)	36,174	(134,088)	(133,030)	(91,074)
Comprehensive Income							
Net income	—	—	—	—	65,706	—	65,706
Unrealized loss on interest rate swaps	—	—	—	(55,957)	—	—	(55,957)
Reclassification adjustment for realized loss on interest rate swaps included in net income during the year	—	—	—	30,137	—	—	30,137
Unrealized loss on Kindred Common Stock	—	—	—	(31,456)	—	—	(31,456)
Reclassification adjustment for realized gain on Kindred Common Stock included in net income during the year	—	—	—	(5,014)	—	—	(5,014)
Comprehensive Income							3,416
Dividends to common stockholders —							
\$0.95 per share	—	—	—	—	(65,897)	—	(65,897)
Proceeds from issuance of shares							
for offering, net	2,250	91,363	—	—	—	—	93,613
Proceeds from issuance of shares							
for Stock Plans, net	—	(18,627)	—	—	—	22,344	3,717
Grant of restricted stock, net of forfeitures	—	(3,425)	(1,646)	—	—	5,816	745
Amortization of restricted stock grants	—	—	1,853	—	—	—	1,853
Balance at December 31, 2002	20,652	191,779	(793)	(26,116)	(134,279)	(104,870)	(53,627)
Comprehensive Income							
Net income	—	—	—	—	162,753	—	162,753
Unrealized loss on interest rate swaps	—	—	—	(8,226)	—	—	(8,226)
Reclassification adjustment for realized loss on interest rate swaps included in net income during the year	—	—	—	21,577	—	—	21,577
Unrealized gain on Kindred Common Stock	—	—	—	3,510	—	—	3,510
Reclassification adjustment for realized gain on Kindred Common Stock included in net income during the year	—	—	—	(9,039)	—	—	(9,039)
Comprehensive Income							170,575
Dividends to common stockholders—							
\$1.07 per share	—	—	—	—	(85,264)	—	(85,264)
Proceeds from issuance of shares							
for Stock Plans, net	—	(26,636)	—	—	—	49,420	22,784
Grant of restricted stock, net of forfeitures	—	(2,677)	(1,229)	—	—	4,479	573
Amortization of restricted stock grants	—	—	1,274	—	—	—	1,274
Balance at December 31, 2003	\$20,652	\$162,466	\$ (748)	\$(18,294)	\$ (56,790)	\$ (50,971)	\$ 56,315

See accompanying notes.

Consolidated Statements of Cash Flows

2003

For the Years Ended December 31, 2003, 2002 and 2001

(In thousands)

	2003	2002	2001
Cash flows from operating activities:			
Net income	\$ 162,753	\$ 65,706	\$ 50,566
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation (including amounts in discontinued operations)	41,943	42,107	42,038
Amortization of deferred financing costs	4,095	3,706	2,332
Amortization of restricted stock grants	1,274	1,853	1,734
Reversal of contingent liability	(20,164)	—	—
Normalized rents	(108)	(188)	2
Gain on sale of assets (including amounts in discontinued operations)	(60,820)	(28,528)	(15,715)
Loss on impairment of assets (included in discontinued operations)	845	—	—
Loss on extinguishment of debt	84	11,077	1,322
Amortization of deferred revenue	(3,707)	(2,711)	(1,673)
Net loss on swap breakage	5,168	5,407	—
Swap ineffectiveness	296	1,850	—
Other	(508)	174	49
Changes in operating assets and liabilities:			
Decrease in restricted cash	12,378	820	6,120
Increase in accounts receivable and other assets	(1,892)	(1,338)	(1,400)
Increase (decrease) in accounts payable and accrued and other liabilities	(4,271)	16,450	(5,482)
Net cash provided by operating activities	137,366	116,385	79,893
Cash flows from investing activities:			
Purchase of furniture and equipment	(258)	(308)	(1,117)
Investment in real estate property	—	(53,000)	—
Investment in loan receivable	—	(64,931)	—
Proceeds from sale of loan receivable, net	—	49,033	—
Sale of real estate properties	139,164	28,620	670
Proceeds from sale of Kindred Common Stock	20,223	6,950	3,420
Proceeds from loan receivable	205	—	—
Repayment (issuance) of notes receivable from employees	367	(504)	(213)
Net cash provided by (used in) investing activities	159,701	(34,140)	2,760
Cash flows from financing activities:			
Net change in borrowings under revolving line of credit	(59,900)	(101,301)	—
Proceeds from debt	—	620,300	225,000
Purchase of Senior Notes	(37,366)	—	—
Repayment of debt	(7,247)	(18,590)	(263,017)
Repayment of debt through refinancing	—	(607,106)	—
Payment of swap breakage fee	(8,575)	(12,837)	—
Payment of deferred financing costs	(40)	(15,127)	(6,932)
Payment on the United States Settlement	(46,647)	(10,755)	(41,746)
Issuance of common stock	22,604	97,155	503
Cash distribution to stockholders	(80,247)	(50,125)	(65,266)
Net cash used in financing activities	(217,418)	(98,386)	(151,458)
Net increase (decrease) in cash and cash equivalents	79,649	(16,141)	(68,805)
Cash and cash equivalents at beginning of year	2,455	18,596	87,401
Cash and cash equivalents at end of year	\$ 82,104	\$ 2,455	\$ 18,596
Supplemental disclosure of cash flow information:			
Interest paid including swap payments and receipts	\$ 70,342	\$ 60,790	\$ 84,700
Supplemental schedule of noncash activities:			
Receipt of Kindred Common Stock	\$ —	\$ —	\$ 18,200
Dividend distribution of Kindred Common Stock	\$ —	\$ 17,086	\$ —

See accompanying notes.

Notes to Consolidated Financial Statements

2003

Note 1—Description of Business

Ventas, Inc. (“Ventas” or the “Company”) is a healthcare real estate investment trust (“REIT”) with a geographically diverse portfolio of healthcare and senior housing facilities. As of December 31, 2003, this portfolio consisted of 42 hospitals, 194 nursing facilities and nine other healthcare and senior housing facilities in 37 states. The Company leases these facilities to healthcare operating companies under “triple-net” leases. As of December 31, 2003, Kindred Healthcare, Inc. and its subsidiaries (collectively, “Kindred”) lease 186 of the Company’s nursing facilities and all but one of the Company’s hospitals. The Company also has investments relating to 25 healthcare and senior housing facilities located in Ohio and Maryland. The Company operates in one segment which consists of financing, owning and leasing healthcare-related and senior housing facilities. See “Note 2—Summary of Significant Accounting Policies.” See “Note 6—Mergers and Acquisitions” for a description of certain transactions occurring after December 31, 2003. Unless otherwise stated, the information presented herein does not give effect to transactions closed after December 31, 2003.

As of December 31, 2003, the Company conducted substantially all of its business through a wholly owned operating partnership, Ventas Realty, Limited Partnership (“Ventas Realty”) and an indirect, wholly owned limited liability company, Ventas Finance I, LLC (“Ventas Finance”). As of December 31, 2003, Ventas Finance owned 39 of the Company’s skilled nursing facilities, the Company owned two of the hospitals and Ventas Realty owned all of the Company’s other properties and investments.

Note 2—Summary of Significant Accounting Policies

Impact of Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 5” (“FIN No. 46”). FIN No. 46 requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. FIN No. 46 is effective for financial statements issued for the first period ending after March 15, 2004. The Company does not expect the adoption of FIN No. 46 to have any impact on the Company’s presentation of its Consolidated Financial Statements.

In April 2002, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 1, and Technical Correction” (“SFAS No. 145”). SFAS No. 4, “Reporting Gains and Losses from Extinguishment of Debt” (“SFAS No. 4”), required that gains and losses from the extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item. The provisions of SFAS No. 145 that related to the rescission of SFAS No. 4 required the Company to reclassify certain prior period items that no longer meet the extraordinary classification into continuing operations. Additionally, future gains and losses related to debt extinguishment may be required to be classified as income from continuing operations. The provisions

of SFAS No. 145 related to the rescission of SFAS No. 4 became effective in fiscal years beginning after May 15, 2002. As required, on January 1, 2003 the Company adopted SFAS No. 145. In accordance with SFAS No. 145, the Company’s prior year financial statements have been reclassified to include gains and losses from extinguishment of debt in continuing operations. This reclassification has no effect on the Company’s net income.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure” (“SFAS No. 148”). SFAS No. 148 provides transition methods for entities that elect to adopt the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires disclosure of comparable information regarding the Company’s method of accounting for stock-based employee compensation for all interim periods. The Company has stock-based employee compensation plans which are described in “Note 9—Stockholders’ Equity and Stock Options.” The Company accounts for these plans under the intrinsic method of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB Opinion No. 25”), and related interpretations. No stock-based employee compensation cost for options is reflected in net income, as all options granted under the Company’s plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. FASB recently announced that rulemaking to expense stock options would be delayed until the third quarter 2004. The Company intends to adopt the fair value method of accounting at such time as FASB adopts final rules regarding the appropriate valuation methods. In addition, the Company grants shares of restricted stock to certain officers and directors. Shares of restricted stock vest cumulatively in two to four equal annual installments beginning either on the date of the grant or on the first anniversary of the date of the grant. In accordance with the provisions of APB Opinion No. 25, compensation expense is recognized for these restricted stock grants over these vesting periods.

Derivative Instruments

In June of 2000, the FASB issued SFAS No. 138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities,” which amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”). SFAS No. 133, as amended, requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. As discussed in “Note 7—Borrowing Arrangements,” the Company uses derivative instruments to protect against the risk of interest rate movements on future cash flows under its variable rate debt agreements. On January 1, 2001, the Company adopted SFAS No. 133, and at that time, designated anew the derivative instruments in accordance with the requirements of the new standard. The adoption of the standard as of January 1, 2001 resulted in the recognition of a liability of \$4.1 million to reflect the fair value of the Company’s interest rate swap agreement and an identical reduction to other comprehensive income, a component of stockholders’ equity. In addition, the \$21.6 million deferred gain recognized on a terminated derivative position (See “Note 7—Borrowing Arrangements”) was reclassified to other comprehensive income, resulting in a cumulative adjustment to other comprehensive

income of \$17.5 million. SFAS No. 133 may increase or decrease reported net income and stockholders' equity prospectively, depending on future levels of interest rates, the computed "effectiveness" of the derivatives, as that term is defined by SFAS No. 133, and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows. The Company reports its derivative instruments at fair value on the Consolidated Balance Sheet. Changes in the fair value of derivatives deemed to be eligible for hedge accounting are reported in Accumulated Other Comprehensive Income exclusive of ineffectiveness amounts which are reported in the Statement of Operations. As of December 31, 2003, an \$18.3 million net unrealized loss on the derivatives is included in Accumulated Comprehensive Income. Changes in fair value of derivative instruments that are not eligible for hedge accounting are reported in the Statement of Operations. See "Note 8—Fair Values of Financial Instruments." Fair value of derivative instruments are estimated by a third party consultant.

Discontinued Operations

In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long Lived Assets," ("SFAS 144") effective for financial statements issued for fiscal years beginning after December 15, 2001, the results of operations and gain/(loss) on real estate properties sold or held for sale subsequent to December 31, 2001 are reflected in the consolidated statements of operations as "Discontinued Operations" for all periods presented. Interest expense allocated to Discontinued Operations has been estimated based on a proportional allocation of rental income among all of the Company's facilities.

Basis of Presentation

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

Reclassifications

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

Real Estate Investments

Investments in real estate properties are recorded at cost. The Company accounts for acquisitions using the purchase method. The cost of the properties acquired is allocated among tangible land, buildings and equipment and recognized intangibles based upon estimated fair values in accordance with the provisions of SFAS No. 141, "Business Combinations". Recognized intangibles include the value of acquired lease contracts. In computing the value of acquired lease contracts, consideration is given to (a) whether the lease is at market rates, (b) origination fees typically incurred to negotiate a contract, and (c) recovery costs to replace the tenant. Depreciation for buildings is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 50 years.

Impairment of Assets

Provisions for impairment losses related to long-lived assets, if any, are recognized when expected future cash flows are less than the

carrying values of the assets. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relationship to the future undiscounted cash flows of the underlying operations. The Company adjusts the net book value of leased properties and other long-lived assets to fair value, if the sum of the expected future cash flow or sales proceeds is less than net book value. During the year ended December 31, 2003, the Company recorded a \$0.8 million impairment on one of its non-operating skilled nursing facilities. During the years ended December 31, 2002 and 2001, the Company did not recognize an impairment loss.

Cash Equivalents

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

Loan Receivable

The loan receivable is stated at the unpaid principal balance net of deferred origination fees. Net deferred origination fees are comprised of loan fees collected from the borrower net of certain direct costs. Net deferred origination fees are amortized over the contractual life of the loan using the level yield method. Interest income on the loans receivable is recorded as earned. The Company evaluates the collectibility of the loan receivable based on, among other things (a) corporate and facility level financial and operational reports, (b) compliance with the financial covenants set forth in the applicable loan documents and (c) the financial stability of the applicable borrower and any guarantor.

Comprehensive Income

SFAS 130, "Reporting Comprehensive Income," establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes net income and all other non-owner changes in stockholders' equity during a period including unrealized gains and losses on equity securities classified as available-for-sale and unrealized fair value adjustments on certain derivative instruments.

Marketable Equity Securities

Marketable equity securities are classified as available-for-sale and reported on the Company's Consolidated Balance Sheet at fair value. As of December 31, 2002, a \$5.5 million unrealized gain relating to the Kindred common stock ("Kindred Common Stock") owned by the Company is included in Accumulated Other Comprehensive Income. As of December 31, 2003, the Company did not own any marketable equity securities.

Deferred Financing Costs

Deferred financing costs are amortized as a component of interest expense over the terms of the related borrowings using a method that approximates a level yield, and are net of accumulated amortization of approximately \$7.4 million and \$3.4 million at December 31, 2003 and 2002, respectively.

Revenue Recognition

Rental revenue is recognized as earned over the terms of the related leases which are treated as operating leases. Such income

includes periodic increases, if any, based on pre-determined formulas as defined in the lease agreements. Certain leases with tenants other than Kindred contain provisions relating to increases in rental payments over the terms of the leases. Rental income under these leases is recognized over the term of each lease on a straight-line basis.

Accounting Estimates

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

Segment Reporting

The Company has one primary reportable segment, which consists of investment in real estate. The Company's primary business is financing, owning and leasing healthcare-related and senior housing facilities and leasing or subleasing such facilities to third parties, primarily Kindred. See "Note 4—Concentration of Credit Risk." All of the Company's leases are triple-net leases, which require the tenants to pay all property related expenses. The Company does not operate these facilities nor does it allocate capital to maintain the properties. Substantially all depreciation and interest expenses, except for interest expense relating to the United States Settlement (as defined in "Note 11—Commitments and Contingencies—Settlement of United States Claims"), reflected in the consolidated statement of operations relate to the ownership of the Company's investment in real estate.

Note 3—Revenues from Properties

Approximately 94.3% of the Company's total real estate revenue for the year ended December 31, 2003 was derived from the four amended and restated master lease agreements dated as of April 20, 2001 between Ventas Realty and Kindred (the "Kindred Amended Master Leases") and the master lease agreement dated as of December 12, 2001 between Ventas Finance and Kindred (the "Kindred CMBS Master Lease," and, collectively with the Kindred Amended Master Leases, the "Kindred Master Leases").

Each Kindred Master Lease is a "triple-net lease" pursuant to which Kindred is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. 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 10 to 15 years from May 1, 1998, subject to certain exceptions, and are subject to three five-year renewal terms.

Under each Kindred Master Lease, the aggregate annual rent is referred to as Base Rent (as defined in each Kindred Master Lease). Base Rent escalates on May 1 of each year at an annual rate of 3.5% over the Prior Period Base Rent (as defined in the Kindred Master Leases) if certain Kindred revenue parameters are met. Assuming such Kindred revenue parameters are met, annual

Base Rent under the Kindred Master Leases will be \$193.6 million from May 1, 2004 to April 30, 2005.

On July 1, 2003, the Company and Kindred amended the Kindred Master Leases to increase rent on certain facilities under the Kindred Master Leases by \$8.6 million per year on an annualized basis (May 1, 2003–April 30, 2004), for approximately seven years. This amount will escalate 3.5% annually in accordance with the Kindred Master Leases. In addition, the Kindred Master Leases were amended to: (1) provide that all annual escalators under the Kindred Master Leases will be in cash at all times and (2) expand certain cooperation and information sharing provisions of the Kindred Master Leases.

The future contracted minimum rentals, excluding rent escalations and excluding the amortization of the value of the Kindred common stock and the \$4.5 million in cash received on April 20, 2001, the date the Kindred Plan of Reorganization (the "Final Plan") became effective (the "Kindred Effective Date"), but with normalized rents where applicable, for the remainder of the initial terms of the Kindred Master Leases and the Company's leases with tenants other than Kindred are as follows:

(In thousands)	Kindred	Other	Total
2004	\$ 187,010	\$ 8,037	\$ 195,047
2005	187,010	8,160	195,170
2006	187,010	8,188	195,198
2007	187,010	8,217	195,227
2008	152,652	8,247	160,899
Thereafter	298,672	35,439	334,111
Total	\$1,199,364	\$76,288	\$1,275,652

The Company has a one-time right to reset the rents under the Kindred Master Lease (the "Reset Right"), exercisable during a one-year period commencing on July 19, 2006 by notice given on or after January 20, 2006 on a Kindred Master Lease by Kindred Master Lease basis, to a then fair market rental rate, for a total fee of \$5.0 million payable on a pro-rata basis at the time of exercise under the applicable Kindred Master Lease. The Reset Right under the Kindred CMBS Master Lease (defined in "Note 7—Borrowing Arrangements—CMBS Transaction") can only be exercised in conjunction with the exercise of the Reset Right under Kindred Master Lease No. 1. The Company cannot exercise the Reset Right under the Kindred CMBS Master Lease without the prior written consent of the CMBS Lender (defined in "Note 7—Borrowing Arrangements—CMBS Transaction") if, as a result of such reset, the aggregate rent payable for the CMBS Properties (defined in "Note 7—Borrowing Arrangements—CMBS Transaction") would decrease.

Note 4—Concentration of Credit Risk

As of December 31, 2003, 69.4% of the Company's real estate properties related to skilled nursing facilities, based on the original cost of such investments. The remaining real estate properties consist of hospitals, assisted living facilities and personal care facilities and real estate loans. The Company's facilities are located in 37 states with rental revenues from operations in only one state

accounting for more than ten percent (10%) of the Company's rental revenues. Approximately 93.8% of the Company's real estate properties, based on the original cost of such investments, are operated by Kindred and approximately 94.3% of total real estate revenue in 2003 was derived from the Kindred Master Leases.

Because the Company leases substantially all of its properties to Kindred and Kindred is the primary source of the Company's real estate revenues, Kindred's financial condition and ability and willingness to satisfy its rent obligations under the Kindred Master Leases and certain other agreements with the Company will significantly impact the Company's revenues and its ability to service its indebtedness and to make distributions to its stockholders. On September 13, 1999, Kindred filed for protection under the Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware, and the Final Plan became effective and Kindred emerged from bankruptcy on the Effective Date. Despite Kindred's emergence from bankruptcy, there can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy its obligations under the Kindred Master Leases or that Kindred will perform its obligations under the Kindred Master Leases. The inability or unwillingness of Kindred to satisfy its obligations under the Kindred Master Leases would have a material adverse effect on the business, financial condition, results of operation and liquidity of the Company, on the Company's ability to service its indebtedness and on the Company's ability to make distributions to its stockholders as required to maintain its status as a REIT (a "Material Adverse Effect").

Note 5—Dispositions

In accordance with SFAS 144 effective for financial statements issued for fiscal years beginning after December 15, 2001, the results of operations and gain/(loss) on real estate properties sold or held for sale subsequent to December 31, 2001 are reflected in the consolidated statements of operations as "Discontinued Operations" for all periods presented. Interest expense allocated to Discontinued Operations has been estimated based on a proportional allocation of rental income among all of the Company's facilities.

On June 30, 2003, the Company completed the sale of 16 skilled nursing facilities in Florida and Texas to Kindred, which had been leasing those properties from the Company, for \$58.9 million in net cash proceeds. A loss of \$5.3 million was recognized and included in Discontinued Operations for the year ended December 31, 2003. In addition, Kindred paid the Company a \$4.1 million lease termination fee. The Company used the net proceeds to repay in full all unpaid amounts under the Company's settlement agreement with the Department of Justice (the "United States Settlement"). The remaining net proceeds were used to reduce the Company's debt balances.

On December 11, 2003, the Company completed the sale of an additional ten under-performing facilities to Kindred, which leased and operated those facilities prior to the sale, for \$77.8 million, net of transaction costs. A gain of \$54.9 million was recognized and included in Discontinued Operations for the

year ended December 31, 2003. The Company has also received from Kindred a \$6 million lease termination fee on the sold facilities. The Company used the net proceeds from the sale and the lease termination fee to pay breakage costs relating to the termination of \$120 million notional amount of the 2003-2008 Swap (defined below), to reduce debt, and to fund other general corporate obligations.

During the third quarter ended September 30, 2003, the Company sold a non-operating skilled nursing facility for \$2.3 million net of transaction costs and received a non-binding proposal to purchase another non-operating skilled nursing facility. As a result, the Company recognized a gain of \$2.1 million on the sold facility and also recorded a \$0.8 million impairment on the other facility.

As of December 31, 2002, the net book value of the facilities sold and held for sale during 2003 was \$91.7 million.

On March 13, 2002, the Company sold a skilled nursing facility for \$1.8 million and recognized a gain of \$1.1 million which was reported as a component of Discontinued Operations. The Company applied net proceeds of \$1.5 million as a prepayment of the Company's indebtedness under the Company's prior credit agreement (the "2000 Credit Agreement"). On June 21, 2002, the Company sold a hospital facility and recognized a gain of approximately \$22.4 million. The Company applied net proceeds of \$27.1 million as a prepayment of the Company's indebtedness under the 2002 Credit Agreement (defined below).

Set forth below is a summary of the results of operations of the sold and held for sale facilities during the years ended December 31, 2003, 2002 and 2001 (in thousands):

For the years ended December 31,	2003	2002	2001
Revenues:			
Rental income	\$10,265	\$14,282	\$14,540
Interest and other income	10,116	—	—
Expenses:			
Interest	3,075	5,732	6,835
Depreciation	2,223	3,648	3,815
Loss on impairment of asset held for sale	845	—	—
Income before gain on sale of real estate and income tax	14,238	4,902	3,890
Gain on sale of real estate	51,781	23,450	—
Income before income tax	66,019	28,352	3,890
Provision for income tax	—	—	186
Discontinued Operations	\$66,019	\$28,352	\$ 3,704

Note 6—Mergers and Acquisitions

ElderTrust Merger

On February 5, 2004, the Company consummated a merger transaction in an all cash transaction valued at \$184 million (the “ElderTrust Transaction”).

The ElderTrust Transaction adds nine assisted living facilities, one independent living facility, five skilled nursing facilities, two medical office buildings and a financial office building (the “ElderTrust Properties”) to the Company’s portfolio. The ElderTrust Properties are leased by the Company to various operators under leases providing for aggregated, annual cash base rent of approximately \$16.2 million, subject to escalation as provided in the leases. The leases have remaining terms primarily ranging from four to 11 years. At the closing of the ElderTrust Transaction, the Company also acquired all of the limited partnership units in ElderTrust Operating Limited Partnership (“ETOP”) directly from their owners at \$12.50 per unit, excluding 31,455 Class C Units in ETOP (which will remain outstanding). ETOP owns directly or indirectly all of the ElderTrust Properties.

The Company funded the \$101 million equity portion of the purchase price with cash on ElderTrust’s balance sheet, a portion of the \$85 million in proceeds from its December 2003 sale of ten facilities to Kindred and draws on the Company’s revolving credit facility (the “Revolving Credit Facility”) under its Second Amended and Restated Security and Guaranty Agreement, dated as of April 17, 2002 (the “2002 Credit Agreement”). The Company’s ownership of the ElderTrust Properties is subject to approximately \$83 million of property level debt and other liabilities. At the close of the ElderTrust Transaction, ElderTrust had approximately \$33.5 million in unrestricted and restricted cash on hand.

The acquisition was accounted for under the purchase method. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Such estimates are subject to refinement as additional valuation information is received. Operations from this merger will be reflected in the Company’s consolidated financial statements for periods subsequent to the acquisition date of February 5, 2004. The Company is in the process of computing fair values, thus, the allocation of the purchase price is subject to refinement.

	(in millions)
Real estate investments	\$162
Cash and cash equivalents	28
Other assets	5
Total assets acquired	\$195
Notes payable and other debt	83
Accounts payable and other accrued liabilities	2
Total liabilities assumed	85
Net assets acquired	\$110

Transaction with Brookdale

On January 29, 2004, the Company entered into 14 definitive purchase agreements (each, a “Brookdale Purchase Agreement”) with certain affiliates of Brookdale Living Communities, Inc. (“Brookdale”) to purchase (each such purchase, a “Brookdale Acquisition”) a total of 14 independent living or assisted living facilities (each, a “Brookdale Facility”) for an aggregate purchase price of \$115 million. Affiliates of Brookdale have agreed to lease and operate the Brookdale Facilities pursuant to one or more triple-net leases. All of the Brookdale leases, which have an initial term of 15 years, will be guaranteed by Brookdale and provide for aggregated annual base rent of approximately \$10 million, escalating each year by the greater of (i) 1.5% or (ii) 75% of the consumer price index.

The Company expects to fund the Brookdale Acquisitions by assuming an aggregate of approximately \$41 million of non-recourse property level debt on certain of the Brookdale Facilities, with the balance to be paid from cash on hand and/or draws on the Revolving Credit Facility. The property level debt encumbers seven of the Brookdale Facilities.

On January 29, 2004, the Company completed the acquisitions of four Brookdale Facilities for an aggregate purchase price of \$37 million. The Company’s acquisition of the remaining ten Brookdale Facilities is expected to be completed shortly, subject to customary closing conditions. However, the consummation of each such Brookdale Acquisition is not conditioned upon the consummation of any other such Brookdale Acquisition and there can be no assurance which, if any, of such remaining Brookdale Acquisitions will be consummated or when they will be consummated.

Transactions with Trans Healthcare, Inc.

On November 4, 2002, the Company, through its wholly owned subsidiary Ventas Realty, completed a \$120.0 million transaction (the “THI Transaction”) with Trans Healthcare, Inc., a privately owned long-term care and hospital company (“THI”). The THI Transaction was structured as a \$53.0 million sale leaseback transaction (the “THI Sale Leaseback”) and a \$67.0 million loan (the “THI Loan”), comprised of a first mortgage loan (the “THI Senior Loan”) and a mezzanine loan (the “THI Mezzanine Loan”). Following a sale of the THI Senior Loan in December 2002 (see below), the Company’s investment in THI was \$70.0 million.

As part of the THI Sale Leaseback, Ventas Realty purchased 5 properties and is leasing them back to THI under a “triple-net” master lease (the “THI Master Lease”). The properties subject to the Sale Leaseback are four skilled nursing facilities and one continuing care retirement community. The THI Master Lease, which has an initial term of ten years, provides for annual base rent of \$5.9 million. The THI Master Lease provides that if THI meets specified revenue parameters, annual base rent will escalate each year by the greater of (i) three percent or (ii) 50% of the consumer price index.

The THI Senior Loan, with an outstanding balance of approximately \$50.0 million on December 27, 2002, was secured by 18 properties and bears interest at LIBOR plus 367 basis points, inclusive of upfront fees (with a LIBOR floor of three percent). On December 27, 2002, the Company sold the THI Senior Loan to GE Capital Credit Corporation, generating net proceeds of \$49.0 million, recognizing a minimal gain as a result of the sale.

The THI Mezzanine Loan, with a current principal balance of approximately \$16.5 million, bears interest, inclusive of upfront fees, of 18% per annum and is secured by equity pledges in THI and certain of its subsidiaries that own and operate the 18 facilities that also collateralize the THI Senior Loan, liens on four additional healthcare/senior housing properties, and interests in three additional properties operated by THI. The Company funded the transaction by drawing on the Revolving Credit Facility under the 2002 Credit Agreement.

Note 7—Borrowing Arrangements

The following is a summary of the Company's long-term debt and certain interest rate and maturity information as of December 31, 2003 and 2002 (in thousands):

(vi) a component in the original principal amount of \$19,280,000 which bears interest at LIBOR plus 3.1665%. Principal of and interest on the CMBS Loan is payable monthly. Principal payments on the CMBS Loan were calculated based upon a 25-year amortization schedule using an assumed interest rate of 9.46% per annum. The CMBS Loan matures on December 9, 2006, at which time a principal balloon payment of approximately \$206.3 million will be due, assuming all scheduled amortization payments are made and no prepayments are made on the CMBS Loan. The CMBS Loan may be prepaid in whole or in part at any time and from time to time without penalty or premium.

On December 12, 2001, the Company used \$212.8 million of the proceeds from the CMBS Loan to pay down a portion of the outstanding principal under the 2000 Credit Agreement. The Company recognized a \$1.3 million loss on extinguishment of debt relating to the partial write-off of unamortized deferred financing costs as a result of the aforementioned prepayments under the 2000 Credit Agreement.

The CMBS Loan is secured by liens on the 39 skilled nursing facilities (the "CMBS Properties") transferred by Ventas Realty

	December 31, 2003	December 31, 2002
2002 Credit Agreement—\$290.0 million revolving credit line, bearing interest at LIBOR plus 2.50% in 2003 and 2.75% in 2002 or the Base Rate plus 1.00% in 2003 and 1.25% in 2002 (3.64% and 4.44% at December 31, 2003 and 2002, respectively)	\$ —	\$ 59,300
2002 Credit Agreement—Tranche B Term Loan, bearing interest at LIBOR plus 2.50% (3.64% and 4.34% at December 31, 2003 and 2002, respectively)	59,100	59,700
Senior Notes due 2009, bearing interest at 8¾%	174,217	174,217
Senior Notes due 2012, bearing interest at 9%	191,821	191,821
CMBS Loan, bearing interest at a nominal weighted average rate of LIBOR plus 1.4853% and 1.4651% at December 31, 2003 and 2002, respectively (2.6553% at December 31, 2003 and 2.8964% at December 31, 2002), due December 9, 2006	215,424	222,671
	\$640,562	\$707,709

CMBS Transaction

On December 12, 2001, the Company raised \$225.0 million in gross proceeds from the completion of a commercial mortgage backed securitization transaction (the "CMBS Transaction"). Under a Loan and Security Agreement dated as of December 12, 2001 (the "CMBS Loan Agreement"), Ventas Finance obtained a loan in the principal amount of \$225.0 million (the "CMBS Loan") from Merrill Lynch Mortgage Lending, Inc., as lender (the "CMBS Lender"). The CMBS Loan is comprised of six components (i) a component in the original principal amount of \$125,230,000 which bears interest at LIBOR plus 0.8665%; (ii) a component in the original principal amount of \$17,970,000 which bears interest at LIBOR plus 1.1665%; (iii) a component in the original principal amount of \$8,860,000 which bears interest at LIBOR plus 1.5165%; (iv) a component in the original principal amount of \$26,830,000 which bears interest at LIBOR plus 1.9665%; (v) a component in the original principal amount of \$26,830,000 which bears interest at LIBOR plus 2.6665%; and

to Ventas Finance and leased to Kindred under a Kindred Master Lease (the "Kindred CMBS Master Lease"). Except for certain customary exceptions, the CMBS Loan is non-recourse to Ventas Finance and the Company.

Ventas Finance is required to maintain or cause to be maintained the following reserve accounts under the CMBS Loan Agreement: (a) a debt service reserve account in an amount of \$5.0 million to cover shortfalls in cash available for debt service on the CMBS Loan, (b) an imposition and insurance reserve for the payment of real property taxes and insurance premiums with respect to the CMBS Properties, and (c) a replacement reserve account in the amount of \$1.58 million for the payment of the cost of capital improvements made to the CMBS Properties. The impositions and insurance reserve and the replacement reserve under the CMBS Loan Agreement are being funded and/or maintained by Kindred as required under and in accordance with the terms of the Kindred CMBS Master Lease. If Kindred should be

unwilling or unable to fund these reserves under the CMBS Loan Agreement, Ventas Finance will be required to fund and/or maintain such reserves. Restricted cash at December 31, 2003 included \$5.0 million related to the debt service reserve account for the CMBS Loan.

Monthly rental amounts under the Kindred CMBS Master Lease are deposited directly by Kindred into a central account for the benefit of the CMBS Lender. Amounts in the central account are applied to pay the monthly principal and interest payments on the CMBS Loan and to fund the reserve accounts required under the CMBS Loan Agreement. Amounts remaining in the central account after the payment of the current month's principal and interest payment and the funding of the reserve accounts are distributed to Ventas Finance, provided no event of default has occurred and is continuing under the CMBS Loan Agreement and provided a Cash Flow Sweep Event (as defined below) has not occurred. The central account is swept on a daily basis.

During the continuance of an event of default or a Cash Flow Sweep Event, all amounts in the central account in excess of the current month's principal and interest payment and the required reserve payments will be deposited into an account and applied as a prepayment of the CMBS Loan on the next monthly payment date. A "Cash Flow Sweep Event" occurs as of any date of determination if (the "Coverage Test") (a) the ratio of (i) the aggregate net cash flow from the CMBS Properties for the applicable quarter to (ii) the debt service on the CMBS Loan for the same quarter, is less than 1.50 to 1, or (b) the aggregate net cash flow from the CMBS Properties for the applicable quarter does not equal or exceed the rent payable under the Kindred CMBS Master Lease for the same quarter. No Cash Flow Sweep Event will occur at any time while the Coverage Test is satisfied.

The 2002 Credit Agreement

On April 17, 2002 (the "2002 Refinancing Date"), the Company, as guarantor, and Ventas Realty, as borrower, entered into a Second Amended and Restated Credit, Security and Guaranty Agreement (the "2002 Credit Agreement"). Under the 2002 Credit Agreement, Ventas Realty obtained a \$350.0 million credit facility (the "Total Commitments") consisting of a \$60.0 million term loan (the "Tranche B Term Loan") and the \$290.0 million Revolving Credit Facility. The 2002 Credit Agreement also permits Ventas Realty to obtain an additional term loan in an amount of not less than \$50.0 million, but not more than the remaining unused portion of the Total Commitments, subject to the conditions set forth in the 2002 Credit Agreement (the "Tranche C Term Loan"). Subject to the terms of, and the satisfaction of certain conditions set forth in, the 2002 Credit Agreement, Ventas Realty has the option to increase the Total Commitments (in the form of term and/or revolving loans) to an amount not to exceed \$450.0 million.

The outstanding aggregate principal balance of the Tranche B Term Loan, the Tranche C Term Loan and the Revolving Credit Facility may not collectively exceed either (a) the Borrowing Base (as described below) or (b) the Total Commitments. As of December 31, 2003, the outstanding principal balance of the

Tranche B Term Loan was \$59.1 million and there was no outstanding principal balance under the Revolving Credit Facility. As of December 31, 2003, there was no Tranche C Term Loan.

Amounts under the Revolving Credit Facility may be borrowed and reborrowed from time to time, subject to the conditions set forth in the 2002 Credit Agreement; provided, however, that the Revolving Credit Facility matures and must be repaid in full on April 17, 2005. The principal amount of the Tranche B Term Loan is payable in installments of \$150,000 on the last day of each fiscal quarter, beginning September 30, 2002, and matures and must be repaid in full on April 17, 2007.

Borrowings outstanding under the 2002 Credit Agreement bear interest at an Applicable Percentage over either (i) a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate (as defined in the 2002 Credit Agreement) in effect for the relevant period, plus one half of one percent (0.5%) and (b) the Prime Rate (as defined in the 2002 Credit Agreement) in effect for the relevant period (the "Base Rate") or (ii) a fluctuating LIBOR-based rate per annum (the "Eurodollar Rate"). With respect to Tranche B Term Loans, the Applicable Percentage is (a) 2.50% for loans bearing interest at the Eurodollar Rate, and (b) 1.00% for loans bearing interest at the Base Rate (as defined in the 2002 Credit Agreement). With respect to revolving loans under the Revolving Credit Facility:

- (a) If the senior unsecured (non-credit enhanced) long term debt of Ventas Realty or the Company is rated BBB- or better by Standard & Poor's ("S&P") and Baa3 or better by Moody's Investors Service, Inc. ("Moody's") (in the case of a split rating the lower rating will apply), the Applicable Percentage is as follows: (i) 0.25% for revolving loans bearing interest at the Base Rate and (ii) 2.25% for revolving loans bearing interest at the Eurodollar Rate.
- (b) Otherwise, the Applicable Percentage is based on the Consolidated Leverage Ratio (as defined in the 2002 Credit Agreement) as follows:

Pricing Level	Consolidated Leverage Ratio	Applicable Percentage for Eurodollar Rate Loans	Applicable Percentage for Base Rate Loans
I	≤ 4.25	2.50%	1.00%
II	> 4.25 but < 4.75	2.75%	1.25%
III	≥ 4.75	3.00%	1.50%

The Consolidated Leverage Ratio is generally the ratio of debt of the Company and its consolidated subsidiaries (excluding the United States Settlement, and net of unrestricted cash and cash equivalents) measured on the last day of the applicable fiscal quarter, to EBITDA of the Company and its consolidated subsidiaries for the period of four consecutive fiscal quarters ending as of such day, as more particularly described in the 2002 Credit Agreement. The Applicable Percentage as of the period ended December 31, 2003 was based on pricing level I.

Loans outstanding under the 2002 Credit Agreement are pre-payable without premium or penalty, provided that loans bearing interest at the Eurodollar Rate are subject to customary “breakage” costs if repaid prior to the end of an interest period. Ventas Realty has agreed to pay various fees in connection with the 2002 Credit Agreement, including without limitation, issuance fees for letters of credit and fees for the unused portion of the total committed amount of the Revolving Credit Facility. Ventas Realty may permanently reduce or terminate the total committed amount of the Revolving Credit Facility, subject to the conditions set forth in the 2002 Credit Agreement.

The Company (and any other owner of mortgaged property securing Ventas Realty’s obligations under the 2002 Credit Agreement from time to time) has guaranteed Ventas Realty’s obligations under the 2002 Credit Agreement. Such obligations are secured by liens on certain of Ventas Realty’s real property assets and any related leases, rents and personal property, and, at Ventas Realty’s option, may be secured by certain cash collateral from time to time. Currently, 54 real properties owned by Ventas Realty are mortgaged to secure the 2002 Credit Agreement (the “Borrowing Base Properties”). As of December 31, 2003, the carrying value of the 54 Borrowing Base Properties was \$141.3 million. All 54 Borrowing Base Properties are leased to Kindred pursuant to Kindred Master Lease No. 1.

The Borrowing Base under the 2002 Credit Agreement is, as determined at any time, an amount equal to the sum of (i) sixty-five percent (65%) of the aggregate appraised property value of the Borrowing Base Properties, plus (ii) one hundred percent (100%) of amounts on deposit in certain cash collateral or pledged accounts. The aggregate principal amount of the obligations outstanding under the 2002 Credit Agreement (including the revolving loans under the Revolving Credit Facility, the Tranche B Term Loan and the Tranche C Term Loan) may not at any time exceed the Borrowing Base. As of December 31, 2003, the Borrowing Base was \$320.9 million, and the outstanding aggregate principal balance of the obligations under the 2002 Credit Agreement was \$59.1 million, and the remaining availability under the 2002 Credit Agreement was \$261.8 million. Ventas Realty may at any time include additional real estate assets (which must satisfy certain conditions set forth in the 2002 Credit Agreement) in the Borrowing Base to increase its remaining availability, up to the Total Commitments. Subject to the terms and conditions set forth in the 2002 Credit Agreement, Ventas Realty may also obtain a release of various Borrowing Base Properties from the liens and security interests encumbering such properties.

The 2002 Credit Agreement contains a number of restrictive covenants, including, without limitation, covenants pertaining to (i) the incurrence of additional indebtedness; (ii) limitations on liens; (iii) customary restrictions on certain dividends, distributions and other payments (the sum of all restricted payments made by the Company after the 2002 Refinancing Date cannot exceed the sum of (a) 95% of the Company’s aggregate cumulative funds from operations (“FFO”) and (b) certain additional amounts further described in the 2002 Credit Agreement); (iv) mergers, sales of assets and other transactions; (v) requirements regarding the

maintenance of certain (a) consolidated leverage ratios, (b) consolidated fixed charge coverage ratios and (c) consolidated adjusted net worth; (vi) transactions with affiliates; (vii) permitted business and development activities and uses of loan proceeds; and (viii) changes to material agreements. The 2002 Credit Agreement contains various potential events of default and is, among other things, cross-defaulted with certain other indebtedness and obligations of Ventas Realty and the Company.

Senior Notes Offering

On the 2002 Refinancing Date, Ventas Realty and Ventas Capital Corporation, a wholly owned subsidiary of Ventas Realty (collectively, the “Issuers”), completed the offering (the “Senior Notes Offering”) of 8¾% Senior Notes due 2009 in the aggregate principal amount of \$175.0 million (the “2009 Senior Notes”) and 9% Senior Notes due 2012 in the aggregate principal amount of \$225.0 million (the “2012 Senior Notes” and, together with the 2009 Senior Notes, the “Senior Notes”). The 2009 Senior Notes and the 2012 Senior Notes were issued under separate Indentures, each dated as of April 17, 2002 (collectively, the “Indentures”) and mature on May 1, 2009 and May 1, 2012, respectively. As of December 31, 2003, \$174.2 million principal amount was outstanding under the 2009 Senior Notes and \$191.8 million principal amount was outstanding under the 2012 Senior Notes.

The Senior Notes are unconditionally guaranteed on a senior unsecured basis by the Company and by certain of the Company’s current and future subsidiaries as described in the Indentures (collectively, the “Guarantors”). The Senior Notes are part of the general unsecured obligations of the Company and Ventas Realty, rank equal in right of payment with all existing and future senior obligations of the Company and Ventas Realty, and rank senior to all existing and future subordinated indebtedness of the Company and Ventas Realty. However, the Senior Notes are effectively subordinated to all borrowings under the 2002 Credit Agreement with respect to Borrowing Base Properties and any future assets securing indebtedness under the 2002 Credit Agreement. In addition, the Senior Notes are structurally subordinated to approximately \$215.4 million of indebtedness relating to the CMBS Transaction that is secured by the CMBS Properties. The Issuers may redeem the Senior Notes, in whole or in part, at any time at a redemption price equal to the principal amount, plus accrued and unpaid interest to the date of redemption and a make-whole premium as described in the Indentures.

If the Company experiences certain kinds of changes of control, as described in the Indentures, the Issuers must make an offer to repurchase the Senior Notes, in whole or in part, at a purchase price in cash equal to 101% of the principal amount thereof, plus any accrued and unpaid interest to the date of purchase; provided, however, that in the event Moody’s and S&P have confirmed their ratings of the Senior Notes and certain other conditions are met as set forth in the Indentures, this repurchase obligation will not apply.

The Indentures contain covenants that limit the ability of the Company and certain of the Company’s subsidiaries (collectively, the “Restricted Group”) to, among other things (i) incur debt, (ii) incur secured debt, (iii) make certain dividend payments,

distributions and investments (the sum of all restricted payments made by the Company after the 2002 Refinancing Date cannot exceed the sum of (a) 95% of the Company's aggregate cumulative FFO and (b) certain additional amounts further described in the Indentures), (iv) enter into certain transactions, including transactions with affiliates, (v) subject the Company's subsidiaries to restrictions on dividends or other payments to the Company, (vi) merge, consolidate or transfer all or substantially all of the Restricted Group's assets and (vii) sell assets. These covenants are subject to certain exceptions and qualifications as described in the Indentures. The Restricted Group is also required to maintain total unencumbered assets of at least 150% of the Restricted Group's unsecured debt. If the Company obtains an investment grade rating, certain of these covenants will be suspended while such rating remains in effect.

Pursuant to the registration rights agreement entered into in connection with the Senior Notes Offering, on July 25, 2002, the Issuers and Guarantors completed an offer to exchange the Senior Notes with a new series of notes that are registered under the Securities Act and are otherwise substantially identical to the outstanding Senior Notes, except that certain transfer restrictions, registration rights and liquidated damages relating to the outstanding Senior Notes do not apply to the new notes. The Company did not receive any additional proceeds in connection with the exchange offer.

On December 31, 2002, the Company repurchased \$34.0 million principal of Senior Notes with a portion of the proceeds of the Equity Offering. The Company purchased \$0.8 million principal of 2009 Senior Notes and \$33.2 million principal of 2012 Senior Notes in open market purchases. The total purchase price aggregated \$37.4 million and is reflected in the Consolidated Balance Sheet as securities settlement due. As a result of these purchases, the Company reported a loss on extinguishment of debt of \$4.2 million in the fourth quarter ended December 31, 2002.

Scheduled Maturities of Borrowing Arrangements

As of December 31, 2003, the Company's indebtedness has the following maturities (in thousands):

2004	\$ 3,412
2005	3,690
2006	210,122
2007	57,300
2008	—
Thereafter	366,038
	<u>\$640,562</u>

Use of Proceeds; Repayment of 2000 Credit Agreement

On April 17, 2002, the Company used (i) the \$400.0 million gross proceeds from the Senior Notes Offering, (ii) \$220.3 million of borrowings under the 2002 Credit Agreement (consisting of \$60.0 million of borrowings under the Tranche B Term Loan and \$160.3 million of borrowings under the Revolving Credit Facility) and (iii) approximately \$14.3 million cash on hand to: (a) repay all outstanding indebtedness under the 2000 Credit

Agreement, (b) pay certain closing costs, fees and expenses, and (c) pay a one-time \$13.6 million breakage cost relating to the termination of \$350.0 million notional amount of the 1998 Swap (defined below). The \$13.6 million breakage cost is composed of (i) a \$12.8 million swap breakage fee and (ii) \$0.8 million of accrued interest on the terminated \$350.0 million notional amount for the period April 1, 2002 through April 17, 2002. The Company recorded a \$6.9 million loss on extinguishment of debt to write-off unamortized deferred financing costs relating to the 2000 Credit Agreement.

Derivatives and Hedging

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. For interest rate exposures, derivatives are used primarily to fix the rate on debt based on floating-rate indices and to manage the cost of borrowing obligations. The Company currently has an interest rate swap to manage interest rate risk. The Company prohibits the use of derivative instruments for trading or speculative purposes. Further, the Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivative is designed to hedge, the Company does not anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

One of the Company's interest rate swap agreements expired on June 30, 2003 and had a notional principal amount as of December 31, 2002 of \$425.0 million (the "1998 Swap"). Under the 1998 Swap the Company paid a fixed rate at 5.985% and received LIBOR (floating rate).

On August 4, 1999, the Company entered into an agreement with the 1998 Swap counterparty to shorten the maturity of the 1998 Swap from December 31, 2007 to June 30, 2003 in exchange for a payment in 1999 from the counterparty to the Company of \$21.6 million. The Company began amortizing such amount for financial accounting purposes out of Accumulated Comprehensive Income in July 2003 and will continue such amortization through December 2007, subject to the adjustments described below.

On the 2002 Refinancing Date, as a result of the consummation of the Senior Notes Offering and the establishment of the new credit facility under the 2002 Credit Agreement, all of the outstanding indebtedness under the 2000 Credit Agreement was repaid in full. Consequently, the Company entered into an agreement with the 1998 Swap counterparty to break \$350.0 million of the \$800.0 million 1998 Swap notional amount in exchange for a payment to the counterparty of approximately \$12.8 million. Additionally, a portion of the previously deferred gain recorded in connection with the 1999 transaction to shorten the maturity of the 1998 Swap also was impacted. Based on the Company's previous designation of the 1998 Swap to hedge the Company's exposure to variable rate debt, the \$12.8 million partial swap breakage cost and \$7.4 million of the approximately \$21.6 million deferred gain, both of which were previously recorded on the

Consolidated Balance Sheet in Accumulated Other Comprehensive Income, were recognized as a net expense of \$5.4 million in the Statement of Operations.

The 1998 Swap was treated as a cash flow hedge. Over time, the unrealized gains and losses recorded on the Consolidated Balance Sheet in Accumulated Other Comprehensive Income were reclassified into earnings in the same periods in which the hedged interest payments affected earnings. The amount reclassified into interest expense on the 1998 Swap for the twelve months ended December 31, 2003 was \$9.0 million. For the year ended December 31, 2002, a portion of the unrealized loss on the 1998 Swap previously reported in Accumulated Other Comprehensive Income had been reclassified to operations to reflect the excess of the notional amount of the 1998 Swap and 2003–2008 Swap over the anticipated variable rate debt balances in the future. An expense of \$1.9 million was recognized in the Statement of Operations to reflect this anticipated overhedged position.

On September 28, 2001, the Company entered into a second interest rate swap agreement in the notional amount of \$450.0 million (the “2003–2008 Swap”) to hedge floating-rate debt for the period between July 1, 2003 and June 30, 2008, under which the Company pays a fixed rate at 5.385% and receives LIBOR from the counterparty to the agreement. The 2003–2008 Swap is treated as a cash flow hedge. On December 11, 2003, the Company received unanticipated cash proceeds from the sale of various facilities to Kindred, thereby reducing its expected variable rate debt balances in the future. Accordingly, the Company entered into an agreement with the 2003–2008 Swap counterparty to break \$120 million of the \$450 million notional amount in exchange for a payment to the counterparty of approximately \$8.6 million. The \$8.6 million represents the value of the \$120 million notional for the period December 11, 2003 through June 30, 2006. In addition, a portion of the deferred gain from the 1998 Swap was also impacted by the change in expectation. Based on the Company’s previous designation of the 1998 Swap and 2003–2008 Swap to hedge the Company’s exposure to variable rate debt, the \$8.6 million breakage cost and \$3.4 million of the remaining \$14.2 million deferred gain (both of which were previously recorded on the Consolidated Balance Sheet in Accumulated Other Income), were recognized as a net expense of \$5.2 million in the Statement of Operations. The amount reclassified into interest expense on the 2003–2008 Swap for the twelve months ended December 31, 2003 was \$10.2 million. Assuming no changes in interest rates, the Company estimates that approximately \$13.0 million of the current balance recorded on the Consolidated Balance Sheet in Accumulated Other Comprehensive Income will be recognized as interest expense within the next twelve months consistent with historical reporting. There are no collateral requirements under the 2003–2008 Swap. The notional amount of the 2003–2008 Swap is \$330.0 million and is scheduled to decline as follows:

Notional Amount	Date
\$300,000,000	June 30, 2006
150,000,000	June 30, 2007
—	June 30, 2008

The Company is exposed to credit loss in the event of the non-performance by the counterparty to an interest rate swap agreement. However, the Company does not anticipate non-performance by the counterparty to the 2003–2008 Swap.

In accordance with the terms of the CMBS Loan Agreement, on December 11, 2001, Ventas Finance purchased an interest rate cap from a highly rated counterparty (the “Buy Cap”). Because the Company already hedged its consolidated interest rate risk through the 1998 Swap and 2003–2008 Swap, on December 11, 2001 the Company sold an interest rate cap (the “Sell Cap”) for the same notional value (\$225.0 million) and on the same terms (5 year amortizing 8% LIBOR cap) as the Buy Cap. If LIBOR should exceed the 8% cap, the Sell Cap would require the Company to pay the counterparty and the Buy Cap would require the counterparty to pay Ventas Finance for the interest accruing in excess of the 8% LIBOR cap. The Buy Cap and the Sell Cap are shown separately as an asset and a liability on the Company’s balance sheet, respectively. The Company believes that the economic substance of the Buy Cap offsets the net cash flow exposure of the Sell Cap.

At December 31, 2003, the 2003–2008 Swap was reported at its fair value of \$27.9 million in liabilities in the Consolidated Balance Sheet. The offsetting entry is reported as a deferred loss in Accumulated Other Comprehensive Income. The Buy and Sell Caps are reported at their fair value of approximately \$0.4 million in other assets and other liabilities, respectively, in the Consolidated Balance Sheet. The offsetting adjustments for the Buy Cap and the Sell Cap are reported in the Consolidated Statement of Operations and net to zero.

Note 8—Fair Values of Financial Instruments

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

- Cash and cash equivalents: The carrying amount of cash and cash equivalents reported in the balance sheet approximates fair value because of the short maturity of these instruments.
- Investment in Kindred Common Stock: The investment was liquidated in 2003. The fair value for 2002 is based on the quoted market value.
- Real estate loan receivable: The fair value of the Company’s loan receivable approximates its net carrying value, based on rates offered for similar arrangements.
- Notes receivable from employees: The fair values of the notes receivable from employees are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.
- Interest rate swap and cap agreements: The fair values of the Company’s interest rate swap and interest rate cap agreements are based on rates being offered for similar arrangements which consider forward yield curves and discount rates.

- 2002 Credit Agreement: The fair values of the Company's borrowings under variable rate agreements approximate their carrying value.
- Senior Notes payable: The fair values of the Company's borrowings under fixed rate agreements are estimated based on open market trading activity provided by a third party.
- United States Settlement: The obligation was paid in full during 2003. The fair value of the Company's settlement with the United States for 2002 approximates its carrying value.
- Commercial Mortgage Backed Securities: The fair values of the Company's borrowings under the CMBS Loan's variable rate agreements approximate their carrying value.

At December 31, 2003 and 2002 the carrying amounts and fair values of the Company's financial instruments are as follows (in thousands):

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 82,104	\$ 82,104	\$ 2,455	\$ 2,455
Investment in Kindred Common Stock	—	—	16,713	16,713
Purchased interest rate cap (Buy Cap)	390	390	1,286	1,286
Real estate loan receivable	16,455	16,455	16,528	16,528
Notes receivable from employees	3,772	3,817	4,139	4,529
Interest rate swap agreements	(27,868)	(27,868)	(47,672)	(47,672)
2002 Credit Agreement	(59,100)	(59,100)	(119,000)	(119,000)
Senior Notes payable	(366,038)	(405,563)	(366,038)	(377,107)
United States Settlement	—	—	(43,992)	(43,992)
CMBS Loan	(215,424)	(215,424)	(222,671)	(222,671)
Written interest rate cap (Sell Cap)	(390)	(390)	(1,286)	(1,286)

Fair value estimates are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented above are not necessarily indicative of the amounts the Company would realize in a current market exchange.

Note 9—Stockholders' Equity and Stock Options

The Company has five plans under which options to purchase common stock have been, or may be, granted to officers, employees and non-employee directors and one plan under which certain directors may receive common stock of the Company in lieu of director fees (the following are collectively referred to as the "Plans"): (1) The 1987 Incentive Compensation Program (Employee Plan); (2) The 2000 Incentive Compensation Plan (Employee Plan); (3) The 1987 Stock Option Plan for Non-Employee Directors; (4) The 2000 Stock Option Plan for Directors; (5) The TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan; and (6) The Common Stock Purchase Plan for Directors (the "Directors Stock Purchase Plan"). On May 23, 2000, the Company's shareholders voted in favor of the amendment and

restatement of the 1997 Stock Option Plan for Non-Employee Directors as the 2000 Stock Option Plan for Directors and the amendment and restatement of the 1997 Incentive Compensation Plan as the 2000 Incentive Compensation Plan (the "2000 Incentive Plan"). As part of the amendment and restatement of the 2000 Incentive Plan, the Company's Board of Directors increased the number of shares reserved for issuance under the 2000 Incentive Plan by 2.22 million shares and increased the maximum number of shares with respect to which stock options can be granted during a calendar year to any given individual to 750,000 shares. On May 15, 2003, the Company's shareholders voted in favor of Amendment No. 1 to the Company's 2000 Stock Option Plan for Directors, which increased the number of shares reserved for issuance under the plan by 200,000.

Under the Plans (other than the Directors Stock Purchase Plan), options are exercisable at the market price at the date of grant,

expire ten years from the date of grant, and vest over varying periods ranging from one to four years. The Company has also granted options and restricted stock to certain officers, employees and non-employee directors outside of the Plans. The options and shares of restricted stock that have been granted outside the Plans vest over varying periods and the options are exercisable at the market price at the date of grant and expire ten years from the date of grant. As of December 31, 2003, options for 2,327,618 shares had been granted to eligible participants and remained outstanding (including options granted prior to the 1998 Spin Off (as defined below) and held by Kindred employees) under the provisions of the Plans. As of December 31, 2003, options for 238,000 shares had been granted outside of the Plans to certain employees and non-employee directors and remained outstanding. The Company granted 157,934, 200,634 and 308,250 shares of restricted stock for the years ended December 31, 2003, 2002 and 2001, respectively. The market value of the restricted shares on the date of the award has been recorded as unearned compensation on restricted stock, with the unamortized balance shown as a separate component of stockholders' equity. Unearned compensation is amortized to expense over the vesting period, with charges to operations of approximately \$1.3 million in 2003, \$1.9 million in 2002 and \$1.7 million in 2001.

The Company only utilizes the 2000 Incentive Compensation Plan (Employee Plan), the 2000 Stock Option Plan for Directors and the Directors Stock Purchase Plan for option and stock grants and stock issuances. Under the terms of the Ventas, Inc. 2000 Incentive Compensation Plan (Employee Plan), 5,620,000 shares are reserved for grants to be issued to employees. Under the terms of the Ventas, Inc. 2000 Stock Option Plan for Directors, 200,000 shares are reserved for grants or issuance to the chairman of the board and non-employee directors. Under the terms of the Directors Stock Purchase Plan, 200,000 shares are reserved for issuance to the chairman of the board and non-employee directors in lieu of the payment of all or a portion of their retainer and meeting fees, at their option. As of December 31, 2003, the

number of shares available for future grants or issuance under the Ventas, Inc. 2000 Incentive Compensation Plan (Employee Plan), the Ventas, Inc. 2000 Stock Option Plan for Directors, and the Directors Stock Purchase Plan are 1,596,509, 253,000 and 169,335, respectively. No additional grants are permitted under the 1987 Incentive Compensation Program, the 1987 Stock Option Plan for Non-Employee Directors and the TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan. As a result, the shares reserved under these three Plans equal the options outstanding under such Plans. As of December 31, 2003, the Company has reserved 1,005,342 shares for these Plans.

The following is a summary of stock option activity for the Company in 2003, 2002 and 2001:

A. 2003 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	4,185,453	\$ 0.1231 – \$26.0476	\$13.6476
Options Granted	326,398	11.2000 – 15.1800	11.5055
Options Exercised	(1,742,693)	4.0000 – 19.1606	13.0043
Options Canceled	(203,540)	5.8913 – 26.0476	16.1346
Outstanding at end of year	2,565,618	3.3125 – 24.4701	13.0621
Exercisable at end of year	2,240,136	\$ 3.3125 – \$24.4701	\$13.2802

B. 2002 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	4,834,219	\$ 0.1231 – \$26.0476	\$12.0116
Options Granted	379,390	11.8600 – 13.4100	11.9621
Options Exercised	(774,770)	3.3125 – 10.8125	4.5710
Options Canceled	(253,386)	0.1970 – 19.8531	13.5480
Outstanding at end of year	4,185,453	3.3125 – 26.0476	13.3002
Exercisable at end of year	3,798,409	\$ 3.3125 – \$26.0476	\$13.6476

C. 2001 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	4,745,636	\$ 0.1231 – \$26.0476	\$12.7134
Options Granted	603,705	5.8750 – 12.0600	7.3180
Options Exercised	(134,408)	3.3125 – 10.3421	5.5095
Options Canceled	(380,714)	3.3125 – 24.1623	15.6160
Outstanding at end of year	4,834,219	0.1231 – 26.0476	12.0116
Exercisable at end of year	4,053,519	\$ 0.1231 – \$26.0476	\$12.6054

A summary of stock options outstanding at December 31, 2003 follows:

Range of Exercise Prices	Outstanding as of December 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of December 31, 2003	Weighted Average Exercise Price
\$ 3.3125 to \$ 8.0000	551,525	6.5	\$ 5.9873	546,775	\$ 6.0063
\$ 8.0001 to \$13.7400	905,367	7.3	12.0820	590,236	12.3268
\$13.7401 to \$18.6200	671,472	2.7	16.3920	665,871	16.4071
\$18.6201 to \$26.0500	437,254	2.3	18.9012	437,254	18.9012
	2,565,618	5.1	\$13.0621	2,240,136	\$13.2802

In 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). This standard prescribes a fair value based method of accounting for employee stock options or similar equity instruments and requires certain pro forma disclosures. For purposes of the pro forma disclosures required under SFAS No. 123, the estimated fair value of the options is amortized to expense over the option's vesting period. The estimated fair value of options granted for the years ended December 31, 2003, 2002 and 2001 was approximately \$235,500, \$337,100 and \$633,300, respectively.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all stock-based employee compensation (in thousands, except per share amounts):

	2003	2002	2001
Net income, as reported	\$162,753	\$65,706	\$50,566
Add: Stock-based employee compensation expense included in reported net income	1,320	1,853	1,734
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,631)	(2,422)	(4,962)
Pro forma net income	\$162,442	\$65,137	\$47,338
Earnings per share:			
Basic—as reported	\$ 2.05	\$ 0.95	\$ 0.74
Basic—pro forma	\$ 2.05	\$ 0.94	\$ 0.69
Diluted—as reported	\$ 2.03	\$ 0.93	\$ 0.73
Diluted—pro forma	\$ 2.03	\$ 0.93	\$ 0.68

In determining the estimated fair value of the Company's stock options as of the date of grant, a Black-Scholes option pricing model was used with the following assumptions:

	2003	2002	2001
Risk free interest rate	4.0%	4.1%	5.2%
Dividend yield	9.0%	9.0%	8.0%
Volatility factors of the expected market price for the Company's common stock	.254%	.276%	.437%
Weighted average expected life of options	9 years	9 years	9 years

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Note 10—Income Taxes

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986 as amended (the "Code"), commencing with the year that ended December 31, 1999. The Company intends to continue to operate in such a manner as to enable it to qualify as a REIT. The Company's actual qualification and taxation as a REIT depends upon its ability to meet, on a continuing basis, distribution levels, stock ownership, and the various qualification tests imposed under the Code.

No net provision for income taxes has been recorded in the Consolidated Financial Statements for the year ended December 31, 2003 due to the Company's belief that it qualified as a REIT and the distribution of more than 100% of its 2003 taxable income as a dividend. As a result of the uncertainties relating to the Company's

ability to retain its operating loss carryforwards, the Company recorded a provision for taxes on the 10% of its estimated 2001 taxable income which the Company did not distribute as a dividend. The 5.0% effective tax rate for 2001 was determined based on the 35% federal statutory rate plus an incremental state rate less the dividends paid deduction. In the third quarter of 2002, the Company filed its 2001 federal tax return on which it elected to apply certain 2002 dividend payments in excess of its 2002 taxable net income. As a result, the Company recorded a \$2.2 million tax benefit for 2002.

The 2002 and 2001 provision (benefit) for income taxes consists of the following including the provision on discontinued operations (in thousands):

	2002	2001
Current tax expense:		
Federal	\$(1,952)	\$2,310
State	(248)	375
	(2,200)	2,685
Less tax included in Discontinued Operations	—	(186)
	\$(2,200)	\$2,499

Although the Company believes that it satisfied the requirements to qualify as a REIT for the years ended December 31, 1999 through 2003 and although the Company intends to continue to qualify as a REIT in subsequent years, it is possible that economic, market, legal, tax or other considerations may cause the Company to fail, or elect not to, continue to qualify as a REIT in any such tax year.

The Company believes it has met the annual distribution requirement by payment of at least 90% of its estimated taxable income for 2003, 2002 and 2001. The Company's dividends for the tax years ended December 31, 2003, 2002 and 2001 constitute ordinary income to the Company's stockholders for tax purposes.

Net taxable income for federal income tax purposes results from net income for financial reporting purposes adjusted for the differences between the financial reporting and tax bases of assets and liabilities, including depreciation, prepaid rent, impairment losses on real estate, the United States Settlement liability, and the interest rate swap agreement. The net difference between tax bases of the Company's assets and liabilities for federal income tax purposes was \$119.2 million and \$160.0 million more than the book bases of those assets and liabilities for financial reporting for the years ended December 31, 2003 and 2002, respectively.

The Company made no income tax payments for the years ended December 31, 2003, 2002 and 2001.

As a former C corporation for federal income tax purposes, the Company potentially remains subject to corporate level taxes for any asset dispositions for the period January 1, 1999 through December 31, 2008 ("Built-in Gains Tax"). The amount of income potentially subject to this special corporate level tax is generally equal to (a) the excess of the fair value of the asset as of December 31, 1998 over its adjusted tax basis as of December 31, 1998, or (b) the actual amount of gain, whichever of (a) and (b) is lower. Some but not all gains recognized during this period of time could be offset by available net operating losses and capital loss carryforwards. The deferred income tax liability of \$30.4 million at December 31, 2003 and 2002, reflects a previously established liability to be utilized for any Built-in Gains Tax incurred on assets that are disposed of prior to January 1, 2009.

Prior to and during the Kindred bankruptcy, the Company and Kindred were engaged in disputes regarding the entitlement to federal, state and local tax refunds for the tax periods prior to and including May 1, 1998 ("Subject Periods") which had been received or which would be received by either company. A tax allocation agreement dated April 30, 1998, between Kindred and the Company ("Tax Allocation Agreement"), provides that the Company and Kindred will be liable for, and will hold each other harmless from and against, respectively, certain tax liabilities for Subject Periods.

On the Kindred Effective Date, Kindred and the Company entered into the Tax Refund Escrow Agreement governing their relative entitlement to certain tax refunds for the Subject Periods

that each received or may receive in the future. The Tax Refund Escrow Agreement amends and supplements the Tax Allocation Agreement. Under the terms of the Tax Refund Escrow Agreement, refunds ("Subject Refunds") received on or after September 13, 1999 by either Kindred or the Company with respect to federal, state or local income, gross receipts, windfall profits, transfer, duty, value-added, property, franchise, license, excise, sales and use, capital, employment, withholding, payroll, occupational or similar business taxes (including interest, penalties and additions to tax, but excluding certain refunds), for taxable periods ending on or prior to May 1, 1998, or including May 1, 1998 and received on or after September 13, 1999 ("Subject Taxes") must be deposited into an escrow account with a third-party escrow agent on the Kindred Effective Date.

The Tax Refund Escrow Agreement provides generally that Kindred and the Company waive their rights under the Tax Allocation Agreement to make claims against each other with respect to Subject Taxes satisfied by the funds in the escrow account (the "Escrow Funds"), notwithstanding the indemnification provisions of the Tax Allocation Agreement. To the extent that the Escrow Funds are insufficient to satisfy all liabilities for Subject Taxes that are finally determined to be due (such excess amount, "Excess Taxes"), the relative liability of Kindred and the Company to pay such Excess Taxes shall be determined as provided in the Tax Refund Escrow Agreement. Disputes under the Tax Refund Escrow Agreement, and the determination of the relative liability of Kindred and the Company to pay Excess Taxes, if any, are governed by the arbitration provision of the Tax Allocation Agreement.

Interest earned on the Escrow Funds or included in refund amounts received from governmental authorities is distributed equally to each of Kindred and the Company on an annual basis and are accrued as interest income on the Consolidated Statement of Operations. Any Escrow Funds remaining in the escrow account after no further claims may be made by governmental authorities with respect to Subject Taxes or Subject Refunds (because of the expiration of statutes of limitation or otherwise) will be distributed equally to Kindred and the Company. At December 31, 2003, approximately \$0.7 million of disputed Subject Refunds and accrued interest, representing 50% of the Escrow Funds, is recognized in restricted cash and other liabilities on the Company's Consolidated Balance Sheet.

On April 1, 2003, the Internal Revenue Service ("IRS") notified the Company that it had completed its review of the Company's federal income tax returns for the Company's 1997 and 1998 tax periods. The Joint Committee on Taxation affirmed the IRS Revenue Agent's report concluding that the Company (1) does not owe any additional taxes for those periods, (2) is entitled to retain the approximately \$26 million federal tax refund it received in 2000 for those periods (the "Original Federal Refund Amount"), and (3) is entitled to receive an additional refund of \$1.2 million for those periods (the "Additional Federal Refund

Amount”). In addition, as a result of the completion of the audit, the Company will retain substantially all of its favorable tax attributes such as net operating loss carryforwards and capital loss carryforwards.

In September 2003, the Company received the Additional Federal Refund Amount which was deposited in the Tax Refund Escrow. Certain other refunds for tax periods ending on or before 1998 are expected to be deposited in the Tax Refund Escrow when received. The Company has recorded its portion of these expected refunds as a receivable in Other Assets on the Consolidated Balance Sheet as of December 31, 2003.

Under the terms of the agreement governing the Tax Refund Escrow, when no further claims may be made for tax periods ending on or before 1998, all funds remaining in the Tax Refund Escrow will be distributed equally to the Company and Kindred. In addition, the companies may jointly agree to disburse funds from the Tax Refund Escrow in equal amounts prior to the expiration of applicable statutes of limitations. Any additional disbursements from the Tax Refund Escrow will be made as remaining tax claims are resolved.

As a result of the Joint Committee on Taxation’s findings, on April 3, 2003, the Company and Kindred agreed to disburse \$13.5 million to each company from a previously established escrow account (the “Tax Refund Escrow”). The Tax Refund Escrow held the Original Federal Refund Amount and certain other tax refunds (collectively, the “Tax Refund Escrow Funds”) related to periods ending in years prior to or including the date of the 1998 Spin Off. As a result of the additional Federal Refund Amount and other state and local refunds, in October 2003 the Company and Kindred agreed to disburse \$1.0 million to each company from the Tax Refund Escrow. After payment of certain related expenses, the Company used approximately \$14.0 million of its portion of the Tax Refund Escrow Funds to repay debt. As of December 31, 2003, the Company’s share of the amounts currently held in the Tax Refund Escrow was approximately \$0.7 million.

In 2003, the Company reported an increase of approximately \$20.2 million to its operating results, reflecting the reversal of a previously recorded contingent liability. A portion of this contingent liability included the Company’s share of the Tax Refund Escrow Funds reported in Other Liabilities—disputed Federal, State and Local Tax Refunds on the Condensed Consolidated Balance Sheet. The other portion of this contingent liability was previously recorded in Accounts Payable and Other Accrued Liabilities on the Consolidated Balance Sheet to take into account the uncertainties surrounding the outcome of the IRS audit for the Company’s 1997 and 1998 tax periods as well as other federal, state, local, franchise and miscellaneous tax items. As of December 31, 2003, the total contingent liability was \$1.2 million. As of December 31, 2002, the Company had recorded a tax contingency liability of \$21.3 million. Included in general administrative expenses on the Company’s Statement of Operations is a tax contingency expense of \$1.5 million for 2001.

The Company’s 1998 federal income tax return reflected capital loss carryforwards of approximately \$200.1 million of which \$0.6 million was carried back to 1996. The Company utilized \$65.2 million, \$26.1 million and \$16.4 million of capital loss carryforwards for the tax years ended December 31, 2003, 2002 and 2001, respectively. The remaining \$91.8 million expired as of December 31, 2003. After fully utilizing NOL carrybacks, the Company also had an NOL carryforward of \$7.6 million at December 31, 2003. These amounts can be used to offset future taxable income (and/or taxable income for prior years if audits of any prior year’s return determine that amounts are owed), if any, remaining after the dividends paid deduction. The Company will be entitled to utilize NOLs and tax credit carryforwards only to the extent that REIT taxable income exceeds the Company’s deduction for dividends paid. The NOL carryforwards expire in 2018. The availability of the carryforwards are subject to the results of the ongoing IRS examination for the prior tax years.

As a result of the uncertainties relating to the ultimate utilization of favorable tax attributes described above, no net deferred tax benefit has been ascribed to capital loss and net operating loss carryforwards as of December 31, 2003 and 2002. The IRS may challenge the Company’s entitlement to these tax attributes during its review of the Company’s tax returns for the previous tax years. The Company believes it is entitled to these tax attributes, but there can be no assurance as to the outcome of these matters.

As in certain prior periods, the IRS is currently reviewing the federal income tax return of the Company for the year ended December 31, 2001.

Note 11—Commitments and Contingencies

Agreement of Indemnity—Third Party Leases

In connection with the Company’s spin off of Kindred in 1998 (the “1998 Spin Off”), the Company assigned its former third party lease obligations (i.e., leases under which an unrelated third party is the landlord) as a tenant or as a guarantor of tenant obligations to Kindred (the “Third Party Leases”). Under the terms of an indemnity agreement relating to the Third Party Leases, Kindred and its subsidiaries have agreed to indemnify and hold the Company harmless from and against all claims against the Company arising out of the Third Party Leases assigned by the Company to Kindred. Either prior to or following the 1998 Spin Off, the tenant’s rights under a subset of the Third Party Leases were assigned or sublet to third parties unrelated to Kindred. If Kindred or such third party subtenants are unable to or do not satisfy the obligations under any Third Party Lease, the lessors may claim that the Company remains liable under the Third Party Leases. The Company believes it may have valid legal defenses to any such claim. However, there can be no assurance the Company would prevail against a claim brought by a lessor under a Third Party Lease. In the event that a lessor should prevail in a claim against the Company, the Company may be entitled to receive

revenues from those properties that would mitigate the costs incurred in connection with the satisfaction of such obligations. The Third Party Leases relating to nursing facilities, hospitals, offices and warehouses have remaining terms (excluding renewal periods) of one to ten years. The Third Party Leases relating to ground leases have remaining terms from one to 80 years. Under the Final Plan, Kindred assumed and agreed to fulfill its obligations under the indemnity agreement relating to the Third Party Leases. There can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that it will continue to honor, its obligations under the indemnity agreement relating to the Third Party Leases. Under the Final Plan, Kindred has agreed not to renew or extend any Third Party Lease unless it first obtains a release of the Company from liability under such Third Party Lease.

The total aggregate remaining minimum rental payments under the Third Party Leases are as follows (in thousands):

	Skilled Nursing Facilities	Hospitals	Land	Sub Leased Third Party Leases	Other	Total
2004	\$ 941	\$2,225	\$ 473	\$1,117	\$265	\$ 5,021
2005	716	1,925	473	1,117	265	4,496
2006	235	1,025	552	1,117	88	3,017
2007	—	1,025	467	1,117	—	2,609
2008	—	1,025	405	1,117	—	2,547
Thereafter	—	—	10,894	2,606	—	13,500
	\$1,892	\$7,225	\$13,264	\$8,191	\$618	\$31,190

Agreement of Indemnity—Third Party Contracts

In connection with the 1998 Spin Off, the Company assigned its former third party guaranty agreements to Kindred (the “Third Party Guarantees”). Under the terms of an indemnity agreement relating to the Third Party Guarantees, Kindred and its subsidiaries have agreed to indemnify and hold the Company harmless from and against all claims against the Company arising out of the Third Party Guarantees. Under the Final Plan, Kindred assumed and agreed to fulfill its obligations under the indemnity agreement relating to the Third Party Guarantees. There can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that it will continue to honor, its obligations incurred in connection with the indemnity agreement relating to the Third Party Guarantees. If Kindred is unable to or does not satisfy the obligations under any Third Party Guarantee, then the Company may be liable for the payment and performance of the obligations under any such agreement. However, the Company believes it may have valid legal defenses to any such claim under a Third Party Guarantee. As of December 31, 2003, the Company has a \$5.0 million potential obligation that is subject to the Third Party Guarantees.

Assumption of Certain Operating Liabilities and Litigation

In connection with the 1998 Spin Off, Kindred agreed in various agreements (the “Spin Agreements”) to, among other things, assume and to indemnify the Company for any and all liabilities that may arise out of the ownership or operation of the healthcare operations either before or after the date of the 1998 Spin Off. The indemnification provided by Kindred also covers losses, including costs and expenses, which may arise from any future claims asserted against the Company based on these healthcare operations. In addition, at the time of the 1998 Spin Off, Kindred agreed to assume the defense, on behalf of the Company, of any claims that were pending at the time of the 1998 Spin Off, and which arose out of the ownership or operation of the healthcare operations. Kindred also agreed to defend, on behalf of the Company, any claims asserted after the 1998 Spin Off which arise out of the ownership and operation of the healthcare operations. Under the Final Plan, Kindred assumed and agreed to perform its obligations under these indemnifications. There can be no

assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that Kindred will continue to honor, its obligations incurred in connection with the 1998 Spin Off. If Kindred does not satisfy or otherwise honor the obligations under these arrangements, then the Company may be liable for the payment and performance of such obligations and may have to assume the defense of such claims.

Kindred Common Stock

On the Kindred Effective Date, Ventas Realty received 1,498,500 shares of the common stock in Kindred Common Stock, representing not more than 9.99% of the issued and outstanding common stock in Kindred as of the Kindred Effective Date. Based on applicable laws, regulations, advice from experts, an appraisal, the trading performance of Kindred common stock at the time and other appropriate facts and circumstances, the illiquidity and lack of registration of the Kindred Common Stock when received and the Company’s lack of significant influence over Kindred, the Company determined the value of the Kindred Common Stock was \$18.2 million on the date received by Ventas Realty. The Kindred Common Stock was issued to the Company as additional future rent in consideration of the Company’s agreement to charge the base rent as provided in the Kindred Master Leases.

The Company disposed of 418,186 shares of Kindred Common Stock in the fourth quarter of 2001 and recognized a gain of \$15.4 million on the dispositions. In connection with a registered offering of common stock by Kindred, Ventas Realty sold 83,300 shares of Kindred Common Stock, recognizing a gain of \$2.6 million. The Company distributed 334,886 shares of Kindred Common Stock as part of the 2001 dividend, resulting in a gain of \$12.8 million. For purposes of the 2001 dividend, the Kindred Common Stock was valued in accordance with the Code and applicable rulings and regulations on December 31, 2001 at \$51.02 per share (the average of the high and low price on that day).

During the year ended December 31, 2002, the Company disposed of a total of 159,500 shares of Kindred Common Stock and recognized a gain of \$5.0 million.

During the year ended December 31, 2003, the Company disposed of the remaining 920,814 shares of Kindred Common Stock and recognized a gain of \$9.0 million. The Company used the net proceeds from the sales of the Kindred Common Stock to prepay the Company's outstanding indebtedness and for general corporate purposes. As of December 31, 2003, the Company did not own any Kindred Common Stock.

Settlement of United States Claims

Kindred and the Company were the subject of investigations by the United States Department of Justice regarding the Company's prior healthcare operations, including matters arising from lawsuits filed under the qui tam, or whistleblower, provision of the Federal Civil False Claims Act, which allows private citizens to bring a

suit in the name of the United States. See "Note 13—Litigation." The Kindred Reorganization Plan contains a comprehensive settlement of all of these claims by the United States Department of Justice (the "United States Settlement").

Under the United States Settlement, the Company was required to pay \$103.6 million to the United States, of which \$34.0 million was paid on the Kindred Effective Date. The balance of \$69.6 million bore interest at 6% per annum and was payable in equal quarterly installments over a five-year term commencing on June 30, 2001 and ending in 2006. The Company also paid approximately \$0.4 million to legal counsel for the relators in the qui tam actions. In the fourth quarter of 2000, the Company recorded the full amount of the obligation under the United States Settlement for \$96.5 million based on an imputed interest rate of 10.75%. On June 30, 2003 the Company incurred a \$2.7 million expense relating to the early repayment of the United States Settlement that is reflected as the United States Settlement interest expense on the Company's Consolidated Statement of Income for the year ended December 31, 2003. The \$2.7 million interest expense reflects the difference between the total amount paid by the Company in final repayment of the United States Settlement and the amount reflected on the Company's balance sheet on the date of final repayment. There was no prepayment penalty or other charges on account of such early prepayment.

Note 12—Earnings Per Share

The following table shows the amounts used in computing basic and diluted earnings per share (in thousands, except per share amounts):

Years Ended December 31,	2003	2002	2001
Numerator for Basic and Diluted Earnings Per Share:			
Income before Discontinued Operations	\$ 96,734	\$37,354	\$46,862
Discontinued Operations	66,019	28,352	3,704
Net Income	\$162,753	\$65,706	\$50,566
Denominator:			
Denominator for Basic Earnings Per Share—Weighted Average Shares	79,340	69,336	68,409
Effect of Dilutive Securities:			
Stock Options	715	883	810
Time Vesting Restricted Stock Awards	39	71	144
Dilutive Potential Common Stock	754	954	954
Denominator for Diluted Earnings Per Share—Adjusted Weighted Average	80,094	70,290	69,363
Basic Earnings Per Share			
Income before Discontinued Operations	\$ 1.22	\$ 0.54	\$ 0.69
Discontinued Operations	0.83	0.41	0.05
Net Income	\$ 2.05	\$ 0.95	\$ 0.74
Diluted Earnings Per Share			
Income before Discontinued Operations	\$ 1.21	\$ 0.53	\$ 0.68
Discontinued Operations	0.82	0.40	0.05
Net Income	\$ 2.03	\$ 0.93	\$ 0.73

Options to purchase 1,065,589 shares of common stock ranging from \$15.69 to \$24.47 were outstanding at December 31, 2003, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year ended December 31, 2003 and therefore, the effect would be anti-dilutive. Options to purchase 2.8 million shares of common stock ranging from \$13.13 to \$26.0476, were outstanding at December 31, 2002 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year ended December 31, 2002 and, therefore, the effect would be anti-dilutive. Options to purchase 3.1 million shares of common stock ranging from \$10.8125 to \$26.0476 were outstanding at December 31, 2001, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year ended December 31, 2001 and, therefore, the effect would be anti-dilutive.

Note 13—Litigation

Legal Proceedings Presently Defended and Indemnified by Kindred Under the Spin Agreements

The following litigation and other matters arose from the Company's operations prior to the time of the 1998 Spin Off or relate to assets or liabilities transferred to Kindred in connection with the 1998 Spin Off. Under the Spin Agreements, Kindred agreed to assume the defense, on behalf of the Company, of any claims that (a) were pending at the time of the 1998 Spin Off and which arose out of the ownership or operation of the healthcare operations or any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, or (b) were asserted after the 1998 Spin Off and which arose out of the ownership and operation of the healthcare operations or any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, and to indemnify the Company for any fees, costs, expenses and liabilities arising out of such operations (the "Indemnification"). Kindred is presently defending the Company in the matters described below, among others. Under the Final Plan, Kindred assumed and agreed to abide by the Indemnification and to defend the Company in these and other matters as required under the Spin Agreements. However, there can be no assurance that Kindred will continue to defend the Company in such matters or that Kindred will have sufficient assets, income and access to financing to enable it to satisfy such obligations or its obligations incurred in connection with the 1998 Spin Off. In addition, many of the following descriptions are based primarily on information included in Kindred's public filings and information provided to the Company by Kindred. There can be no assurance that Kindred has included in its public filings and provided the Company complete and accurate information in all instances.

A stockholder derivative suit entitled *Thomas G. White on behalf of Kindred, Inc. and Ventas, Inc. v. W. Bruce Lunsford, et al.*, Case No. 98 C103669 was filed in June 1998 in the Jefferson County, Kentucky, Circuit Court. The Complaint alleges, among other things, that certain former officers and directors damaged Kindred and the Company by engaging in violations of the securities laws, including engaging in insider trading, fraud and securities fraud and damaging the reputation of Kindred and the Company. The suit seeks unspecified damages, interest, punitive damages, reasonable attorneys' fees, expert witness fees and other costs, and any extraordinary equitable and/or injunctive relief permitted by law or equity to assure the plaintiff has an effective remedy. The Company believes the allegations in the Complaint are without merit. On October 4, 2002, Kindred filed with the Court a motion to dismiss this action as to all defendants, including the Company, for lack of prosecution by the plaintiffs. On October 14, 2002, the Court granted Kindred's motion to dismiss with prejudice. On October 17, 2002, the plaintiffs filed with the Court a motion to vacate that order of dismissal in order to allow further briefing. In response to the plaintiffs' October 17, 2002 motion to vacate the order of dismissal, on August 13, 2003, the Court issued an order vacating the order dismissing the suit. On September 17, 2003, Kindred filed a renewed motion to dismiss this action as to all defendants, including the Company. Plaintiffs have not yet responded to this motion. Kindred has indicated that it intends to continue to defend this action vigorously on behalf of the Company.

A class action lawsuit entitled *Sally Pratt, et al. v. Ventas, Inc. et al.* was filed on May 25, 2001 in the United States District Court for the Western District of Kentucky (Civil Action No. 3-01CV-317-H). The putative class action complaint alleges that the Company and certain current and former officers and employees of the Company engaged in a fraudulent scheme to conceal the true nature and substance of the 1998 Spin Off resulting in (a) a violation of the Racketeer Influenced and Corrupt Organizations Act, (b) bankruptcy fraud, (c) common law fraud, and (d) a deprivation of plaintiffs' civil rights. The plaintiffs allege that the defendants failed to act affirmatively to explain and disclose the fact that the Company was the entity that had been known as Vencor, Inc. prior to the 1998 Spin Off and that a new separate and distinct legal entity assumed the name of Vencor, Inc. after the 1998 Spin Off. The plaintiffs contend that the defendants filed misleading documents in the plaintiffs' state court lawsuits that were pending at the time of the 1998 Spin Off and that the defendants deceptively used the Delaware bankruptcy proceedings of Vencor, Inc. (now Kindred) to stay lawsuits against the Company. As a result of these actions, the plaintiffs maintain that they and similarly situated individuals suffered and will continue to suffer severe financial harm. The suit seeks compensatory damages (trebled with interest), actual and punitive damages, reasonable attorneys' fees, costs and expenses, declaratory and injunctive and any and all other relief to which the plaintiffs may be entitled. Before any class of plaintiffs was certified, this action was dismissed in its

entirety on February 4, 2002 because it was deemed to be an impermissible collateral attack on the Delaware Bankruptcy Court's confirmation order. The plaintiffs thereafter filed an appeal of the District Court's dismissal to the United States Court of Appeals for the Sixth Circuit. However, on plaintiffs' motion, the appeal was stayed after the plaintiffs separately filed a motion with the Delaware Bankruptcy Court seeking, among other things, to have the Delaware Bankruptcy Court set aside portions of the releases of the Company contained in the Final Plan, as such releases might apply to the plaintiffs. On September 19, 2002, the Delaware Bankruptcy Court denied the plaintiffs' motion. On February 28, 2003, the plaintiffs resumed their Sixth Circuit appeal by filing their initial brief with the Sixth Circuit. On April 1, 2003, Kindred, on behalf of the Company, filed defendants' response brief. There were no material developments in this lawsuit during the six months ended December 31, 2003. On January 21, 2004, the Company received notice that the Sixth Circuit has scheduled oral argument in the case for March 18, 2004. Kindred has indicated that it intends to continue to defend this action vigorously on behalf of the Company.

Kindred is a party to certain legal actions and regulatory investigations arising in the normal course of its business. The Company is a party to certain legal actions and regulatory investigations that arise from the normal course of its prior healthcare operations, which legal actions and regulatory investigations are being defended by Kindred under the Indemnification. Neither the Company nor Kindred is able to predict the ultimate outcome of pending litigation and regulatory investigations. In addition, there can be no assurance that the Centers for Medicare and Medicaid Services or other regulatory agencies will not initiate additional investigations related to Kindred's business or the Company's prior healthcare business in the future, nor can there be any assurance that the resolution of any litigation or investigations, either individually or in the aggregate, would not have a material adverse effect on Kindred's liquidity, financial position or results of operations, which in turn could have a Material Adverse Effect on the Company.

Other Litigation

The Company is a plaintiff in an action seeking a declaratory judgment and damages entitled *Ventas Realty, Limited Partnership et al. v. Black Diamond CLO 1998-1 Ltd., et al.*, Case No. 99C107076, filed November 22, 1999 in the Circuit Court of Jefferson County, Kentucky. Two of the three defendants in that action, Black Diamond International Funding, Ltd. and BDC Finance, LLC (collectively "Black Diamond"), have asserted counterclaims against the Company under theories of breach of contract, tortious interference with contract and abuse of process. The Company disputes the material allegations contained in Black Diamond's counterclaims and the Company intends to continue to pursue its claims and defend the counterclaims vigorously. There were no material developments in this action during the year ended December 31, 2003.

The Company is party to various lawsuits arising in the normal course of the Company's business. It is the opinion of management that, except as set forth in this Note 13, the disposition of these lawsuits will not, individually or in the aggregate, have a Material Adverse Effect on the Company. If management's assessment of the Company's liability with respect to these actions is incorrect, such lawsuits could have a Material Adverse Effect on the Company.

No provision for liability, if any, resulting from the aforementioned litigation has been made in the Company's Condensed Consolidated Financial Statements as of December 31, 2003.

Note 14—Capital Stock

The authorized capital stock of the Company at December 31, 2003, 2002 and 2001 consisted of 180,000,000 shares of Common Stock, par value of \$.25 per share, and 10,000,000 shares of preferred stock of which 300,000 shares have been designated Series A Participating Preferred Stock.

On June 19, 2002, the Company filed a universal shelf registration statement on Form S-3 with the Commission relating to \$750 million of common stock, preferred stock, debt securities, depository shares and warrants. The registration statement became effective on July 8, 2002. As of December 31, 2003, \$651 million of these securities remained available for offering off the shelf registration statement.

During the fourth quarter ended December 31, 2002, the Company commenced and completed an equity offering of the Company's common stock with Tenet Healthcare Corporation ("Tenet"). The Equity Offering consisted of 9,000,000 newly issued shares of common stock sold by Ventas and 8,301,067 shares of Ventas common stock owned and sold by Tenet, all priced at \$11.00 per share. The net proceeds received by Ventas from its sale of its newly issued common stock were \$93.6 million and were used to repay outstanding indebtedness including the indebtedness incurred by the Company to invest in the THI Transaction.

Excess Share Provision

In order to preserve the Company's ability to maintain REIT status, the Company's certificate of incorporation provides that if a person acquires beneficial ownership of greater than 9% of the outstanding stock of the Company, the shares that are beneficially owned in excess of such 9% limit are deemed to be "Excess Shares." Excess Shares are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by the Board of Directors of the Company. 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.

The Company has the right to buy the Excess Shares for a purchase price equal to the lesser of (1) the price per share in the transaction that created the Excess Shares, or (2) the market price on the date the Company buys the shares. The Company has the right to defer payment of the purchase price for the Excess Shares for up to five years. If the Company does not purchase the Excess Shares, the trustee of the trust is required to transfer the Excess Shares at the direction of the Board of Directors. The owner of the Excess Shares is entitled to receive the lesser of the proceeds from the sale of the Excess Shares or the original purchase price for such Excess Shares; any additional amounts are payable to the beneficiary of the trust.

The Company's Board of Directors is empowered to grant waivers from the "Excess Share" provisions of the Company's Certificate of Incorporation. On June 24, 2003 the Company granted a waiver (the "C&S Waiver") from the 9% ownership limitation provisions of Article XII of the Company's Certificate of Incorporation to Cohen & Steers Capital Management, Inc. ("C&S"). Under the C&S Waiver, C&S may beneficially own, in the aggregate, up to 14.0% in number of shares or value, of the Company's common stock.

Dividend Reinvestment and Stock Purchase Plan

The Company's Distribution Reinvestment and Stock Purchase Plan (the "Plan") was declared effective by the Securities and Exchange Commission on December 31, 2001. Under the Plan's terms, existing stockholders may purchase shares of common stock in the Company by reinvesting all or a portion of the cash distribution on their shares of the Company's common stock. In addition, existing stockholders of the Company, as well as new investors, may purchase shares of common stock in the Company by making optional cash payments. Beginning with its 2004 first quarter dividend, the Company intends to offer a two percent discount on the purchase price of its stock to shareholders who reinvest their dividends and/or make optional cash purchases of the Company's common stock through the Plan. The availability of a market discount is at the Company's discretion, as determined from time to time. The granting of a discount for one month or quarter, as applicable, will not insure the availability of a discount or the same discount in future months or quarters, respectively. Each month or quarter, as applicable, the Company may lower or eliminate the discount without prior notice. The Company may also, without prior notice, change our determination as to whether common shares will be purchased by the Plan Administrator directly from the Company or in the open market.

Note 15—Related Party Transactions

At December 31, 2003 and 2002, the Company had receivables of approximately \$3.8 million and \$4.1 million, respectively, due from certain current and former executive officers of the Company. The loans include interest provisions (with a 5.0% average rate) and were to finance the income taxes payable by the executive officers resulting from: (i) the 1998 Spin Off and (ii) vesting of Restricted Shares. The loans are payable over periods ranging from four years to ten years with the majority of the obligations amortizing quarterly. Interest on a note relating to the 1998 Spin Off in the principal amount of \$1.9 million at December 31, 2003 (the "1998 Spin Off Note"), is paid on a quarterly basis. The payee of the 1998 Spin Off Note resigned as an employee and director of the Company on January 30, 2003. In the event of a change in control as defined in the Company's 1997 Incentive Compensation Plan, accrued interest on and the principal balance of the 1998 Spin Off Note is forgiven. Interest on the note relating to taxes paid for the vested portion of Restricted Shares (the "Restricted Share Note") is payable annually out of and only to the extent of dividends from the vested restricted shares. In the event of a change in control of the Company (as defined in the relevant employment agreement) or upon termination of the officer without cause (as defined in the relevant employment agreement), the principal balance of the Restricted Share Note is forgiven. The Restricted Share Note is secured by a pledge of all of the restricted shares to which the Restricted Share Note relates and the Restricted Share Note is otherwise non-recourse. The 1998 Spin Off Note is not secured.

On October 15, 1998, the Company acquired eight personal care facilities and related facilities for approximately \$7.1 million from Tangram Rehabilitation Network, Inc. ("Tangram"). Tangram is a wholly owned subsidiary of ResCare, Inc. ("ResCare") of which a director of the Company is the Chairman, President and Chief Executive Officer. The Company leases the Tangram facilities to Tangram pursuant to a master lease agreement which is guaranteed by ResCare. For the years ended December 31, 2003, 2002 and 2001, Tangram has paid the Company approximately \$816,000, \$799,000 and \$779,000, respectively, in rent payments.

Note 16—Quarterly Financial Information (Unaudited)

Summarized unaudited consolidated quarterly information for the years ended December 31, 2003 and 2002 is provided below (amounts in thousands, except per share amounts).

For the Quarters Ended 2003 ⁽⁵⁾	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$47,003	\$48,938	\$58,518	\$50,544
Income before Discontinued Operations	35,934 ⁽¹⁾	15,129 ⁽²⁾	30,392 ⁽³⁾	15,279 ⁽⁴⁾
Discontinued Operations	1,354	1,000	1,820	61,845
Net Income	37,288 ⁽¹⁾	16,129 ⁽²⁾	32,212 ⁽³⁾	77,124 ⁽⁴⁾
Earnings per share				
Basic				
Income before Discontinued Operations	\$ 0.46 ⁽¹⁾	\$ 0.19 ⁽²⁾	\$ 0.38 ⁽³⁾	\$ 0.19 ⁽⁴⁾
Discontinued Operations	0.01	0.01	0.03	0.77
Net Income	\$ 0.47 ⁽¹⁾	\$ 0.20 ⁽²⁾	\$ 0.41 ⁽³⁾	\$ 0.96 ⁽⁴⁾
Diluted				
Income before Discontinued Operations	\$ 0.45 ⁽¹⁾	\$ 0.19 ⁽²⁾	\$ 0.38 ⁽³⁾	\$ 0.19 ⁽⁴⁾
Discontinued Operations	0.02	0.01	0.02	0.76
Net Income	\$ 0.47 ⁽¹⁾	\$ 0.20 ⁽²⁾	\$ 0.40 ⁽³⁾	\$ 0.95 ⁽⁴⁾
Dividends declared	\$0.2675	\$0.2675	\$0.2675	\$0.2675

(1) Includes \$20.2 million reversal of contingent liability.

(2) Includes \$0.9 million gain from the sale of Kindred Common Stock and \$3.8 million of interest expense on United States Settlement.

(3) Includes \$8.1 million gain from the sale of Kindred Common Stock.

(4) Includes \$5.2 million loss on swap breakage.

(5) Amounts presented will not necessarily agree to respective quarterly reports as a result of reclassifications to discontinued operations required as a result of additional property sales throughout 2003.

For the Quarters Ended 2002 ⁽³⁾	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$43,128	\$47,954	\$45,650	\$46,405
Income before Discontinued Operations	10,510	2,673 ⁽¹⁾	15,888 ⁽²⁾	8,283
Discontinued Operations	2,191	23,795	1,205	1,161
Net Income	12,701	26,468 ⁽¹⁾	17,093 ⁽²⁾	9,444
Earnings per share				
Basic				
Income before Discontinued Operations	\$ 0.15	\$ 0.04 ⁽¹⁾	\$ 0.23 ⁽²⁾	\$ 0.12
Discontinued Operations	0.03	0.34	0.02	0.01
Net Income	\$ 0.18	\$ 0.38 ⁽¹⁾	\$ 0.25 ⁽²⁾	\$ 0.13
Diluted				
Income before Discontinued Operations	\$ 0.15	\$ 0.04 ⁽¹⁾	\$ 0.23 ⁽²⁾	\$ 0.12
Discontinued Operations	0.03	0.34	0.01	0.01
Net Income	\$ 0.18	\$ 0.38 ⁽¹⁾	\$ 0.24 ⁽²⁾	\$ 0.13
Dividends declared	\$0.2375	\$0.2375	\$0.2375	\$0.2375

(1) Includes a \$3.8 million gain from the sale of Kindred Common Stock and a \$5.4 million loss on swap breakage.

(2) Includes a \$1.2 million gain from the sale of Kindred Common Stock and a \$2.2 million tax benefit.

(3) Amounts presented will not necessarily agree to respective quarterly reports as a result of reclassifications to discontinued operations required as a result of additional property sales throughout 2002 and 2003 and the Company's adoption of SFAS No. 145 relating to extraordinary items.

Note 17—Condensed Consolidating Information

The Company and certain of its direct and indirect wholly owned subsidiaries (the "Subsidiary Guarantors") have fully and unconditionally guaranteed, on a joint and several basis, the obligation to pay principal and interest with respect to the Senior Notes of Ventas Realty and Ventas Capital Corporation ("Ventas Capital," and together with Ventas Realty, the "Issuers"). The Company has other subsidiaries ("Non-Guarantor Subsidiaries") that are not included among the Subsidiary Guarantors, and such subsidiaries are not obligated with respect to the Senior Notes. Contractual and legal restrictions, including those contained in the agreements

governing the CMBS Transaction, may under certain circumstances restrict the Company's ability to obtain cash from its Non-Guarantor Subsidiaries for the purpose of meeting its debt service obligations, including the Company's guarantee of payment of principal and interest on the Senior Notes. Additionally, as of December 31, 2003, approximately \$141.3 million of the net assets of Ventas Realty were mortgaged to secure the 2002 Credit Agreement. The following summarizes the condensed consolidating information for the Company as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003:

Condensed Consolidating Balance Sheet

Year ended December 31, 2003 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Assets						
Total net real estate investments	\$ 13,500	\$ —	\$583,207	\$ 101,038		\$697,745
Cash and cash equivalents	47	—	82,051	6		82,104
Restricted cash	742	—	1,791	5,042		7,575
Deferred financing costs, net	—	—	9,519	3,946		13,465
Notes receivable from employees	1,716	—	2,056	—		3,772
Equity in affiliates	112,573	2,205	—	—	\$(114,778)	—
Other assets	315	—	7,270	604		8,189
Total assets	\$128,893	\$2,205	\$685,894	\$ 110,636	\$(114,778)	\$812,850
Liabilities and stockholders' equity (deficit)						
Liabilities:						
Notes payable and other debt	\$ —	\$ —	\$425,138	\$ 215,424		\$640,562
Deferred revenue	97	—	12,458	2,753		15,308
Interest rate swap agreements	—	—	27,868	—		27,868
Accrued dividend	21,614	—	—	—		21,614
Accrued interest	—	—	5,466	355		5,821
Accounts payable, intercompany and other accrued liabilities	1,773	—	12,789	—		14,562
Other liabilities—disputed tax refunds and accumulated interest	406	—	—	—		406
Deferred income taxes	30,394	—	—	—		30,394
Total liabilities	54,284	—	483,719	218,532		756,535
Total stockholders' equity (deficit)	74,609	2,205	202,175	(107,896)	(114,778)	56,315
Total liabilities and stockholders' equity (deficit)	\$128,893	\$2,205	\$685,894	\$ 110,636	\$(114,778)	\$812,850

(a) The Subsidiary Guarantors consist of Ventas LP Realty, LLC ("Ventas LLC"), Ventas Healthcare Properties, Inc. ("VHPI") and Ventas TRS, LLC ("TRS"). VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Balance Sheet

Year ended December 31, 2002 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Assets						
Total net real estate investments	\$ 14,194	\$ —	\$706,728	\$ 107,880		\$828,802
Cash and cash equivalents	48	—	2,406	1		2,455
Restricted cash	14,395	—	510	5,048		19,953
Deferred financing costs, net	—	—	12,311	5,393		17,704
Investment in Kindred Healthcare, Inc. common stock	—	—	16,713	—		16,713
Notes receivable from employees	1,716	—	2,423	—		4,139
Equity in affiliates	54,160	1,606	—	—	\$(55,766)	—
Other assets	688	—	3,735	1,591		6,014
Total assets	\$ 85,201	\$1,606	\$744,826	\$ 119,913	\$(55,766)	\$895,780

Liabilities and stockholders' equity (deficit)

Liabilities:						
Senior Notes payable and other debt	\$ —	\$ —	\$485,038	\$ 222,671		\$707,709
United States Settlement	43,992	—	—	—		43,992
Securities settlement due	—	—	37,366	—		37,366
Deferred revenue	123	—	15,517	3,243		18,883
Interest rate swap agreements	—	—	47,672	—		47,672
Accrued dividend	16,596	—	—	—		16,596
Accrued interest	—	—	6,843	394		7,237
Accounts payable, intercompany and other accrued liabilities	7,451	—	17,951	—		25,402
Other liabilities—disputed tax refunds and accumulated interest	14,156	—	—	—		14,156
Deferred income taxes	30,394	—	—	—		30,394
Total liabilities	112,712	—	610,387	226,308		949,407
Total stockholders' equity (deficit)	(27,511)	1,606	134,439	(106,395)	(55,766)	(53,627)
Total liabilities and stockholders' equity (deficit)	\$ 85,201	\$1,606	\$744,826	\$ 119,913	\$(55,766)	\$895,780

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Income

Year ended December 31, 2003 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Revenues:						
Rental income	\$ 2,112	\$ —	\$156,171	\$32,949		\$191,232
Interest income on real estate loan	—	—	3,036	—		3,036
Gain on sale of Kindred Healthcare, Inc. common stock	—	—	9,039	—		9,039
Equity earnings in affiliates	145,945	1,224	—	—	\$(147,169)	—
Interest and other income	341	—	1,342	13		1,696
Total revenues	148,398	1,224	169,588	32,962	(147,169)	205,003
Expenses:						
General and administrative	133	—	10,478	2,113		12,724
Professional fees	26	—	2,004	404		2,434
Reversal of contingent liability	(20,164)	—	—	—		(20,164)
Amortization of restricted stock grants	13	—	1,049	212		1,274
Depreciation	694	—	33,707	5,319		39,720
Net loss on swap breakage	—	—	5,168	—		5,168
Swap ineffectiveness	—	—	296	—		296
Loss on extinguishment of debt	—	—	—	84		84
Interest	—	—	53,506	8,284		61,790
Interest on United States Settlement	4,943	—	—	—		4,943
Total expenses	(14,355)	—	106,208	16,416		108,269
Income (loss) before discontinued operations	162,753	1,224	63,380	16,546	(147,169)	96,734
Discontinued operations	—	—	59,114	6,905		66,019
Net income (loss)	\$162,753	\$1,224	\$122,494	\$23,451	\$(147,169)	\$162,753

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Income

Year ended December 31, 2002 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Revenues:						
Rental income	\$ 1,959	\$ —	\$142,139	\$31,852		\$175,950
Interest income on real estate loan	—	—	995	—		995
Gain on sale of Kindred Healthcare, Inc. common stock stock	—	—	5,014	—		5,014
Equity earnings in affiliate(s)	67,572	536	—	—	\$(68,108)	—
Interest and other income	283	—	822	73		1,178
Total revenues	69,814	536	148,970	31,925	(68,108)	183,137
Expenses:						
General and administrative	101	—	8,003	1,659		9,763
Professional fees	33	—	2,582	535		3,150
Amortization of restricted stock grants	19	—	1,519	315		1,853
Depreciation	694	—	32,436	5,329		38,459
Net loss on swap breakage	—	—	5,407	—		5,407
Swap ineffectiveness	—	—	1,850	—		1,850
Loss on extinguishment of debt	—	—	11,077	—		11,077
Interest	—	—	60,700	10,327		71,027
Interest on United States Settlement	5,461	—	—	—		5,461
Total expenses	6,308	—	123,574	18,165		148,047
Income (loss) before benefit for income taxes, gain on disposal of real estate assets and discontinued operations	63,506	536	25,396	13,760	(68,108)	35,090
Benefit for income taxes	(2,200)	—	—	—		(2,200)
Income (loss) before gain on disposal of real estate assets and discontinued operations	65,706	536	25,396	13,760	(68,108)	37,290
Net gain on real estate disposals	—	—	64	—	—	64
Income (loss) before discontinued operations	65,706	536	25,460	13,760	(68,108)	37,354
Discontinued operations	—	—	28,160	192		28,352
Net income (loss)	\$65,706	\$536	\$ 53,620	\$13,952	\$(68,108)	\$ 65,706

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Income

Year ended December 31, 2001 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Revenues:						
Rental income	\$ 2,233	\$ —	\$167,063	\$ 1,316		\$170,612
Gain on sale of Kindred common stock	—	—	15,425	—		15,425
Equity earnings in affiliates(s)	55,062	515	—	—	\$(55,577)	—
Interest and other income	1,442	—	2,562	—		4,004
Total revenues	58,737	515	185,050	1,316	(55,577)	190,041
Expenses:						
General and administrative	123	—	10,053	68		10,244
Professional fees	56	—	4,571	31		4,658
Amortization of restricted stock grants	21	—	1,701	12		1,734
Depreciation	694	—	37,300	229		38,223
Loss on extinguishment of debt	—	—	1,322	—		1,322
Interest	—	—	82,823	(2,626)		80,197
Interest on United States Settlement	4,592	—	—	—		4,592
Total expenses	5,486	—	137,770	(2,286)		140,970
Income (loss) before income taxes, gain on disposal of real estate assets and discontinued operations	53,251	515	47,280	3,602	(55,577)	49,071
Provision for income taxes	2,499	—	—	—		2,499
Income (loss) before gain on disposal of real estate assets and discontinued operations	50,752	515	47,280	3,602	(55,577)	46,572
Net gain on real estate disposals	—	—	290	—		290
Income (loss) before discontinued operations	50,752	515	47,570	3,602	(55,577)	46,862
Discontinued operations	(152)	—	3,856	—		3,704
Net income (loss)	\$50,600	\$515	\$ 51,426	\$ 3,602	\$(55,577)	\$ 50,566

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2003 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Net cash provided by (used in) operating activities	\$ 158,508	\$ 1,224	\$ 99,971	\$ 24,832	\$(147,169)	\$ 137,366
Net cash provided by (used in) investing activities	(52)	—	152,297	7,456		159,701
Cash flows from financing activities:						
Net change in borrowings						
under revolving line of credit	—	—	(59,900)	—		(59,900)
Purchase of Senior Notes	—	—	(37,366)	—		(37,366)
Repayment of debt	—	—	—	(7,247)		(7,247)
Payment of swap breakage fee	—	—	(8,575)	—		(8,575)
Payment of deferred financing costs	—	—	(40)	—		(40)
Payment on the						
United States Settlement	(46,647)	—	—	—		(46,647)
Cash distributions from affiliates	(54,167)	(1,224)	(66,742)	(25,036)	147,169	—
Issuance of common stock	22,604	—	—	—		22,604
Cash distribution to Stockholders	(80,247)	—	—	—		(80,247)
Net cash provided by (used in) financing activities	(158,457)	(1,224)	(172,623)	(32,283)	147,169	(217,418)
Increase (decrease) in cash and cash equivalents	(1)	—	79,645	5		79,649
Cash and cash equivalents at beginning of year	48	—	2,406	1		2,455
Cash and cash equivalents at end of year	\$ 47	\$ —	\$ 82,051	\$ 6		\$ 82,104

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2002 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Net cash provided by (used in)						
operating activities	\$ 65,841	\$ 536	\$ 95,145	\$ 22,971	\$(68,108)	\$ 116,385
Net cash provided by (used in)						
investing activities	(871)	—	(33,269)	—		(34,140)
Cash flows from financing activities:						
Net change in borrowings						
under revolving line of credit	—	—	(101,301)	—		(101,301)
Proceeds from debt	—	—	620,300	—		620,300
Repayment of debt	—	—	(16,261)	(2,329)		(18,590)
Repayment of debt through refinancing	—	—	(607,106)	—		(607,106)
Payment of swap breakage fee	—	—	(12,837)	—		(12,837)
Payment of deferred financing costs	—	—	(15,127)	—		(15,127)
Payment on the						
United States Settlement	(10,755)	—	—	—		(10,755)
Cash distributions from affiliates	(102,848)	(536)	55,917	(20,641)	68,108	—
Issuance of common stock	97,155	—	—	—		97,155
Cash distribution to stockholders	(50,125)	—	—	—		(50,125)
Net cash provided by (used in)						
financing activities	(66,573)	(536)	(76,415)	(22,970)	68,108	(98,386)
Increase (decrease) in						
cash and cash equivalents	(1,603)	—	(14,539)	1		(16,141)
Cash and cash equivalents						
at beginning of year	1,651	—	16,945	—		18,596
Cash and cash equivalents						
at end of year	\$ 48	\$ —	\$ 2,406	\$ 1		\$ 2,455

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2001 (In thousands)	Ventas, Inc.	Subsidiary Guarantors ^(a)	Issuers ^(b)	Non-Guarantor Subsidiaries ^(c)	Consolidated Elimination	Consolidated
Net cash provided by (used in)						
operating activities	\$ 50,436	\$ 515	\$ 89,524	\$ (5,005)	\$(55,577)	\$ 79,893
Net cash provided by (used in)						
investing activities	(1,697)	—	4,457	—		2,760
Cash flows from financing activities:						
Proceeds from debt	—	—	—	225,000		225,000
Repayment of debt	—	—	(263,017)	—		(263,017)
Payment of deferred financing costs	—	—	(121)	(6,811)		(6,932)
Payment on the						
United States Settlement	(41,746)	—	—	—		(41,746)
Cash distributions from affiliates	57,800	(515)	100,322	(213,184)	55,577	—
Issuance of common stock	503	—	—	—		503
Cash distribution to stockholders	(65,266)	—	—	—		(65,266)
Net cash provided by (used in)						
financing activities	(48,709)	(515)	(162,816)	5,005	55,577	(151,458)
Increase (decrease) in						
cash and cash equivalents	30	—	(68,835)	—		(68,805)
Cash and cash equivalents						
at beginning of year	1,621	—	85,780	—		87,401
Cash and cash equivalents						
at end of year	\$ 1,651	\$ —	\$ 16,945	\$ —		\$ 18,596

(a) The Subsidiary Guarantors consist of Ventas LLC, VHPI and TRS. VHPI and TRS currently have no assets or operations. Ventas LLC is a wholly owned direct subsidiary of the Company and has no other assets or operations other than owning a 1% limited partnership interest in Ventas Realty.

(b) Ventas Capital is a wholly owned direct subsidiary of Ventas Realty that was formed to facilitate the offering of the Senior Notes and has no assets or operations.

(c) The Non-Guarantor Subsidiaries consist of Ventas Specialty I, Inc., Ventas Finance I, Inc., Ventas Specialty I, LLC and Ventas Finance I, LLC, which were formed in 2001 in conjunction with the Company's CMBS Transaction.

Supplemental Data

2003

Funds from Operations

FFO and Normalized FFO for the years ended December 31, 2003 and 2002 (in thousands, except per share amounts):

	2003	2002
Net income	\$162,753	\$ 65,706
Adjustments:		
Depreciation on real estate assets	39,436	38,244
Other items:		
Discontinued operations:		
Real estate depreciation – discontinued	2,223	3,647
(Gain) loss on sale of real estate	(51,781)	(23,514)
FFO	152,631	84,083
Realized gain on sale of		
Kindred common stock	(9,039)	(5,014)
Reversal of contingent liability	(20,164)	—
Loss on extinguishment of debt	84	11,077
Net loss on swap breakage	—	5,407
Normalized FFO	\$123,512	\$ 95,553
Per diluted share:		
Net income	\$ 2.03	\$ 0.93
Adjustments:		
Depreciation on real estate assets	0.49	0.56
Other items:		
Discontinued operations:		
Real estate depreciation – discontinued	0.03	0.04
(Gain) loss on sale of real estate	(0.64)	(0.33)
FFO	1.91	1.20
Realized gain on sale of		
Kindred common stock	(0.11)	(0.07)
Reversal of contingent liability	(0.26)	—
Loss on extinguishment of debt	—	0.16
Net loss on swap breakage	—	0.07
Normalized FFO	\$ 1.54	\$ 1.36

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

FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. FFO should not be considered as an alternative to net income (determined in

accordance with accounting principles generally accepted in the United States (“GAAP”)), as an indicator of the Company’s financial performance, as an alternative to cash flow from operating activities (determined in accordance with GAAP), as a measure of the Company’s liquidity, nor is FFO necessarily indicative of sufficient cash flow to fund all of the Company’s needs. The Company believes that in order to facilitate a clear understanding of the consolidated historical operating results of the Company, FFO should be examined in conjunction with net income as presented elsewhere in this Annual Report.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (“EBITDA”) and Normalized EBITDA for the years ended December 31, 2003 and 2002 (dollars in thousands):

Year Ended December 31,	2003	2002
Net income	\$162,753	\$ 65,706
Add back:		
Interest	61,790	71,027
Interest on United States Settlement	4,943	5,461
Depreciation	39,720	38,459
Swap ineffectiveness	296	1,850
Amortization of		
restricted stock grants	1,274	1,853
Benefit for income taxes	—	(2,200)
Net loss on swap breakage	5,168	5,407
Loss on extinguishment of debt	84	11,077
Discontinued Operations add back:		
Depreciation	2,223	3,648
Interest	3,075	5,732
EBITDA	281,326	208,020
Adjustments:		
Gain on sale of		
Kindred common stock	(9,039)	(5,014)
Reversal of contingent liability	(20,164)	—
Discontinued operations:		
(Gain) loss on sale of real estate	(51,781)	(23,450)
Loss on impairment of asset	845	—
Normalized EBITDA	\$201,187	\$179,556

The Company considers EBITDA a profitability measure which indicates the Company’s ability to service debt. Normalized EBITDA excludes income and expense items that are nonrecurring in the Company’s core business. The Company considers the Net Debt to EBITDA ratio a useful measure to evaluate the Company’s ability to pay its indebtedness. EBITDA presented herein is not necessarily comparable to EBITDA presented by other companies due to the fact that not all companies use the same definition. EBITDA should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company’s financial performance, as an alternative to cash flow from operating activities (determined in accordance with GAAP), as a measure of the Company’s liquidity, nor is EBITDA necessarily indicative of sufficient cash flow to fund all of the Company’s needs. The Company believes that in order to facilitate a clear understanding of the consolidated historical operating results of the Company, EBITDA should be examined in conjunction with net income as presented elsewhere in this Annual Report.

Market for the Company's Common Equity and Related Stockholder Matters

2003

Stock Trading Symbol: VTR

Stock Exchange Listing

The Company's common stock, \$0.25 par value, is listed and traded on the New York Stock Exchange (the "NYSE").

Stockholders

As of February 25, 2004, there were 81,554,635 shares of the Company's common stock outstanding and approximately 3,506 stockholders of record.

Stock Performance

The prices in the table below for the calendar quarters indicated since the first quarter of 2002 represent the high and low sales prices for the Company's common stock as reported on the NYSE.

Calendar Quarter	Sales Price of Common Stock	
	High	Low
2002		
First Quarter 2002	\$13.00	\$11.35
Second Quarter 2002	13.60	12.59
Third Quarter 2002	13.46	10.55
Fourth Quarter 2002	13.76	10.06
2003		
First Quarter 2003	\$12.24	\$11.08
Second Quarter 2003	15.33	11.67
Third Quarter 2003	18.33	14.83
Fourth Quarter 2003	22.98	17.05
2004		
First Quarter 2004 (through February 25, 2004)	\$27.25	\$21.88

Dividend Policy

Aggregate dividends of \$1.07 per share were paid in cash for the year ended December 31, 2003 in equal quarterly installments of \$0.2675 per share.

Aggregate dividends of \$0.95 per share were paid in cash for the year ended December 31, 2002 in equal quarterly installments of \$0.2375 per share.

The Company expects to distribute 100% or more of its taxable net income to its stockholders for 2004 (the "Distribution Policy"). On March 25, 2004, the Company paid the first quarterly installment of its 2004 dividend in an amount of \$0.325 per share to stockholders of record on March 15, 2004.

A number of factors are considered by the Company's Board of Directors when making the final determination regarding the frequency and amount of the Company's dividends. These decisions regarding dividends are normally made at least quarterly. Therefore, there can be no assurance that the Company will maintain this Distribution Policy. Please refer to the Cautionary Statements and Risk Factors contained in our Annual Report on Form 10-K for a description of other factors that may affect its Distribution Policy.

The Company's stockholders may reinvest all or a portion of any cash distribution on their shares of the Company's common stock by participating in the Company's Distribution Reinvestment and Stock Purchase Plan, subject to the terms of the Distribution Reinvestment and Stock Purchase Plan.

Executive Officer 10b5-1 Plans

Debra A. Cafaro, Chairman, President and CEO of the Company, and T. Richard Riney, Executive Vice President and General Counsel of the Company, have adopted non-discretionary, written trading plans that comply with Commission Rule 10b5-1.

Ms. Cafaro's 10b5-1 Plan covers 112,131 shares of common stock and Mr. Riney's 10b5-1 Plan covers 110,000 shares of common stock. In Mr. Riney's case, these shares of common stock will be acquired through the non-discretionary exercise of options previously granted to him as a portion of his long term incentive compensation. In Ms. Cafaro's case, any sale of the Company's common stock will be accomplished through the sale of restricted shares previously issued to her as a portion of her long term incentive compensation. Each plan is expected to be in effect for approximately one year.

At February 1, 2004, prior to the implementation of the 10b5-1 Plan, Ms. Cafaro owned approximately 1.6 million shares of the Company's common stock and options and Mr. Riney owned approximately 0.6 million shares of the Company's common stock and options.

Corporate Information

2003

Directors of the Company

Debra A. Cafaro (46)
Chairman of the Board,
President and Chief Executive Officer
Ventas, Inc.

Douglas Crocker II (63)
Presiding Director of Ventas, Inc.;
Retired, Chief Executive Officer and Vice Chairman
Equity Residential Properties Trust

Ronald G. Geary (55)
Chairman of the Board, President
and Chief Executive Officer
Res-Care, Inc.

Jay M. Gellert (50)
President and Chief Executive Officer
Health Net, Inc.

Sheli Z. Rosenberg (62)
Retired, Vice Chairman
Equity Group Investments, LLC

Thomas C. Theobald (66)
Managing Director
William Blair Capital Partners

Ventas Senior Management

Debra A. Cafaro
Chairman of the Board,
President and Chief Executive Officer

T. Richard Riney
Executive Vice President,
General Counsel and Secretary

Richard A. Schweinhart
Senior Vice President and
Chief Financial Officer

Raymond J. Lewis
Senior Vice President and
Chief Investment Officer

Corporate Headquarters

Ventas, Inc.
10350 Ormsby Park Place
Suite 300
Louisville, KY 40223
502-357-9000

Annual Meeting

The Annual Meeting of Stockholders will convene
Friday, May 21, 2004, at 11:00 a.m. (Central Time) at
The Ritz-Carlton Chicago, 160 E. Pearson Street,
Chicago, Illinois.

Stock Information

Ventas, Inc. is traded on the NYSE under the
ticker symbol "VTR." As of March 12, 2004,
Ventas had 83,767,528 outstanding shares.

Transfer Agent and Registrar

National City Bank
Corporate Trust Administration
629 Euclid Avenue, Room 635
Cleveland, OH 44114
1-800-622-6757
shareholderinquiries@nationalcity.com

Independent Auditors

Ernst & Young LLP

Legal Counsel

Willkie Farr & Gallagher LLP

Information

Copies of the Annual Report, Form 10-K or other published
information may be obtained without charge by contacting the
corporate office or through our Web site at www.ventasreit.com.

Ventas, Inc.

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