

extraordinary



The business of Ventas is usual. Even routine. But Ventas works for its shareholders to make the results of its business remarkably unusual, exceptional and high performing.

With a focused goal of adding value to everything we do, Ventas has delivered excellence to its shareholders year after year after year. Its compound annual total shareholder return exceeded 59 percent for the five years ended December 31, 2004, making it the 9th best performing publicly traded company for that period.

As a leading healthcare real estate investment trust (REIT), Ventas is committed to doing what it does best: take the ordinary business of providing capital to senior housing and healthcare real estate, and make it an extraordinary value for its shareholders.



Financial Highlights

2004

	2004	2003
(In thousands, except per share amounts)		
Operating Data:		
Rental Income	\$ 232,911	\$ 189,987
Total Revenues	236,856	194,719
EBITDA ¹	239,922	281,326
Normalized EBITDA ²	220,494	201,187
Net Income before Discontinued Operations	100,173	96,135
Net Income	120,900	162,753
Per Share Data:		
FFO ³	\$ 1.78	\$ 1.91
Normalized FFO ⁴	\$ 1.80	\$ 1.54
Income before Discontinued Operations	\$ 1.19	\$ 1.21
Net Income	\$ 1.43	\$ 2.03
Dividends Paid for Year	\$ 1.30	\$ 1.07
Weighted Average Shares Outstanding, Diluted	84,532	80,094
Closing Stock Price	\$ 27.41	\$ 22.00
Shares Outstanding	84,599	80,791
Other Data:		
Equity Market Capitalization	\$ 2,318,859	1,777,402
Total Capitalization	\$ 3,162,037	2,417,964
Debt/Total Capitalization	26.7%	29.3%

1 Earnings before interest, taxes, depreciation and amortization.

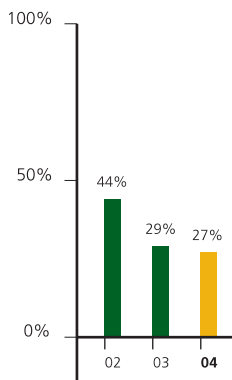
2 Normalized EBITDA includes EBITDA from continuing and discontinued operations but excludes: (a) gains and losses from sales of property, and non-cash impairment expense; (b) gains on the sale of Kindred common stock; and (c) the benefit of a \$20.2 million reversal of contingent liability from the 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 in 2003; (b) the benefit of a \$20.2 million reversal of a previously recorded contingent liability in 2003; and (c) in 2004, the loss on extinguishment of debt incurred in connection with the Company's September 2004 debt refinancing.

For non-GAAP reconciliation, see "Supplemental Data" on page 63.

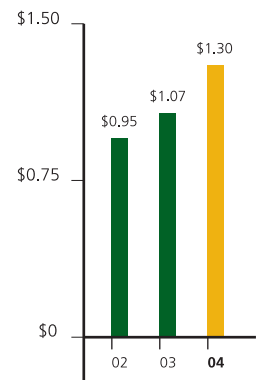
Improved Debt/Total Capitalization



Quarter-End Stock Closing Price



Dividends/Share Paid for Year



Dear Fellow Stakeholder,

Debra A. Cafaro

Chairman, President and Chief Executive Officer

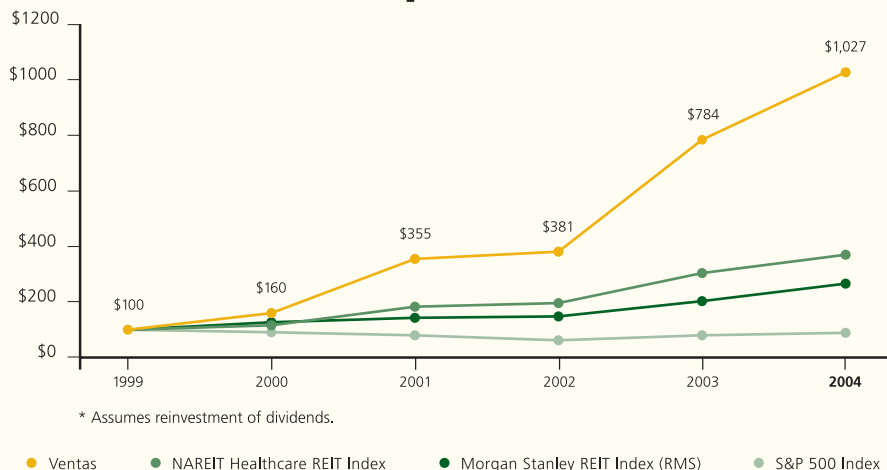


In 2004, we maintained our focus on creating sustainable value for our shareholders. Ventas again demonstrated that it can deliver reliable cash flows, superior risk-adjusted return, exceptional growth in Funds From Operations (FFO), increasing dividends, and portfolio diversification. These are the themes we have sounded each year and each alone may be obvious and ordinary. But Ventas is an extraordinary company and investment because of its ability to achieve success on these key measures, year after year, in an ever-changing environment.

As a result of our strategy and disciplined execution, Ventas ranked as the 9th best performing publicly traded company in the United States for the five-year period ended December 31, 2004, delivering over a 59 percent compound annual Total Shareholder Return (TSR). During that same period, Ventas was the best performing real estate investment trust (REIT) in the Morgan Stanley REIT index. With an enterprise value exceeding \$3 billion, Ventas has solidified its role as a leading healthcare REIT.

Ventas Outperformed the Market

An investment of \$100 in Ventas common stock on December 31, 1999 would have grown to \$1,027 by December 31, 2004.



2004 – Extraordinary Growth

Ventas is known as a company that fulfills its promises to investors, the REIT community, analysts and lenders. We work hard to deserve our reputation for dependability and we are proud that 2004 was no exception.

Normalized FFO per share grew by 17 percent, compared to FFO growth of 4 percent for REITs generally and 5 percent in the healthcare REIT sector. As in prior years, Ventas used its industry-leading internal growth, accretive acquisitions, decreasing cost of debt and the proceeds of opportunistic divestitures to produce exceptional results.

Total shareholder return was 31 percent, substantially higher than the year's healthcare REIT average and on par with REITs generally. Due to the continuing demand for yield-oriented investments, REITs outperformed all the major market indices for the fifth consecutive year.

With serious commitment to our strategic growth plan, last year we completed over \$400 million of new investments, expanding our portfolio of high quality senior housing and related healthcare facilities. Using a deliberate, disciplined approach, we have made significant progress on all diversification fronts. First, we significantly reduced the percentage of rent we receive from our primary tenant, Kindred Healthcare, Inc. (NYSE:KND). We also improved the future reliability of our revenue streams by expanding our portfolio to include independent and assisted living facilities and medical office buildings. Adding these private pay facilities to our base of quality skilled nursing and hospital assets is simply sound portfolio management. Finally, we have extraordinary geographical balance in our portfolio, with a presence in 39 states.

We aim to make our Company a better, more reliable investment by maintaining a strong balance sheet and following a consistent, conservative long-term capitalization strategy as we grow. We also believe that, as a capital provider to the healthcare and senior housing industry, reducing our capital costs is a key ingredient to our future success. Because of our demonstrated commitment to financial strength, we were able to complete two attractive financings last year that lowered our borrowing costs. And, we received an important credit upgrade from the rating agency Standard & Poor's.

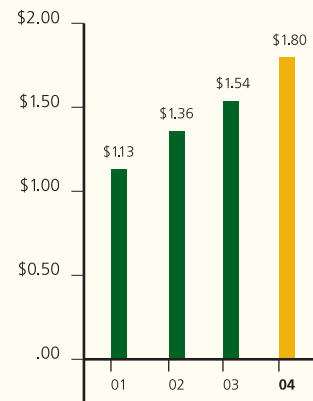
Finally, Ventas "graduated" to the Russell 1000, an index of the 1000 largest publicly traded corporations in the nation. Ventas's inclusion in this distinguished group of companies is a tangible reflection of our success and performance during the past five years.

2005 – Focus on Value

We intend to create more value for our shareholders in 2005 as we seek to deliver superior risk-adjusted returns, produce double-digit FFO growth, increase cash flow, pay higher dividends, drive down our cost of debt and implement our strategic growth and diversification program.

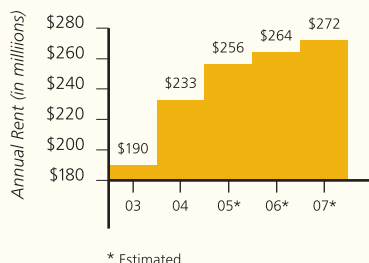
We began the year with an 11 percent increase in our quarterly dividend, repeating our pattern of delivering a secure, growing dividend stream. This increase illustrates our confidence in our assets, our cash flow and our industry.

Normalized FFO per Share



**2004 Normalized FFO
per share grew 17%.**

Built-in Growth



Annual rent escalators of an estimated \$8 million per year give Ventas industry-leading FFO growth.

Our FFO per share should also continue to grow in 2005. The built-in cash escalator in our Master Leases with Kindred should continue to drive our sector-leading internal growth. And, we hope to add to that growth by making accretive acquisitions. Building on our 2004 momentum, we expect to be a major participant in the healthcare and senior housing acquisition market in the coming year.

To respond to the increasingly competitive market for long-term care properties, we may broaden our investment platform to capitalize on adjacent opportunities that we believe will provide our shareholders with superior risk-adjusted return. In all cases, we will be creative but cautious in expanding our business for your benefit.

In the year ahead, I believe we can be successful at continuing to reduce our borrowing costs, even in the face of a rising interest rate environment. Finally, we will consider making additional, opportunistic divestitures and engaging in other mutually beneficial transactions with Kindred to fuel our growth and diversification strategy.

The Reset Right – Our Unique Asset

We view Kindred – the largest provider of long-term care in the United States – as a desirable and creditworthy tenant. Our portfolio with Kindred is highly productive, and exhibits excellent internal balance between long-term acute care hospitals and skilled nursing facilities. Because these are non-correlated businesses, Ventas has natural asset class diversification embedded within its Kindred-operated portfolio. However, we remain cognizant that a company designed for long-term prosperity should have greater tenant diversification. That is one reason we are working so deliberately to expand our asset and revenue base beyond our quality, core portfolio.

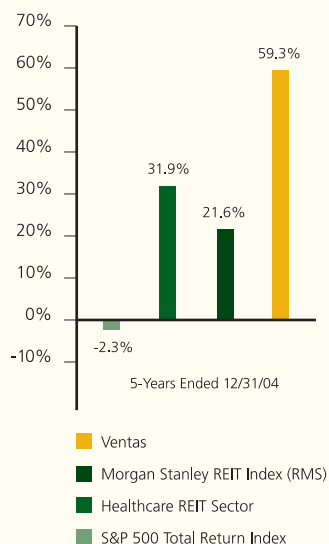
There is a possibility, however, that our Kindred rent concentration may increase, rather than decrease, in the near term. We believe that this increase would be a major positive for all Ventas constituents even though it directly contradicts our focus on tenant diversification.

How? Ventas has a unique one-time, one-way right to increase Kindred's rents to market levels, which Ventas can trigger under its Master Leases in January 2006. The reset right was an important element of Kindred's complex multi-party 2001 restructuring. As Kindred's largest creditor, Ventas shareholders gave Kindred over \$500 million in concessions to restore it to financial health during the nursing home downturn. In return, we crafted the reset right as an innovative, REIT-compliant way for Ventas shareholders to receive a future benefit if, as we forecast, Kindred and the long-term care industry recovered.

In 2005, Ventas and Kindred may begin to work on a consensual resolution of the reset right. Whether through negotiation or simply following the 2006 appraisal process outlined in the Master Leases, Ventas's future rent from Kindred could increase, perhaps materially. In that event, Kindred rent would represent a larger component of Ventas's total revenue base. **It is my strongly held view that receiving an increased cash rental stream from our Kindred portfolio trumps our diversification goal in the short term because in the long term it will create value and enable us to transform the Company into a larger, more valuable and more diversified enterprise.**

Ventas's Extraordinary Performance

Total Shareholder Return



We intend to optimize the value of the reset right for the benefit of Ventas shareholders. If there is a negotiated resolution, we can imagine a scenario in which we would work collaboratively with Kindred management to find a creative solution that benefits both sides. **Ideally, that solution would maximize the value of the reset right for Ventas and keep Kindred strong and profitable.**

While the rental reset option has significant value to Ventas shareholders, its ultimate value remains highly speculative. I cannot tell you whether the value of the reset right will be resolved by agreement or determined by the appraisal process outlined in the Master Leases. Nor can I predict whether the definitive resolution will occur in 2005 or later. I can tell you that the reset right is a unique and material one-way option that Ventas will endeavor to optimize for the benefit of our stakeholders.

"... the reset right is a unique and material one-way option that Ventas will endeavor to optimize for the benefit of our stakeholders."

Independence and Transparency

The Ventas Board of Directors oversees and guides our actions. This year, we continued our emphasis on Board quality with the addition of Christopher T. Hannon, a respected hospital executive.

I believe that Ventas's exceptional Board distinguishes the Company and helps us build lasting value. I am grateful to all our Board members for sharing their time and experience with me. Our shareholders are extremely fortunate that Ventas has a Board they can depend on.

Promising More of the Same

We have a great opportunity to make 2005 another successful year for our shareholders. We know there will be obstacles. Whether it is proposed reimbursement changes for nursing homes, a competitive acquisition market for healthcare assets, tenants who have financial challenges or a question about whether REITs can "six-peat" and outperform again in 2005, the Ventas management team will address these challenges thoughtfully and forthrightly.

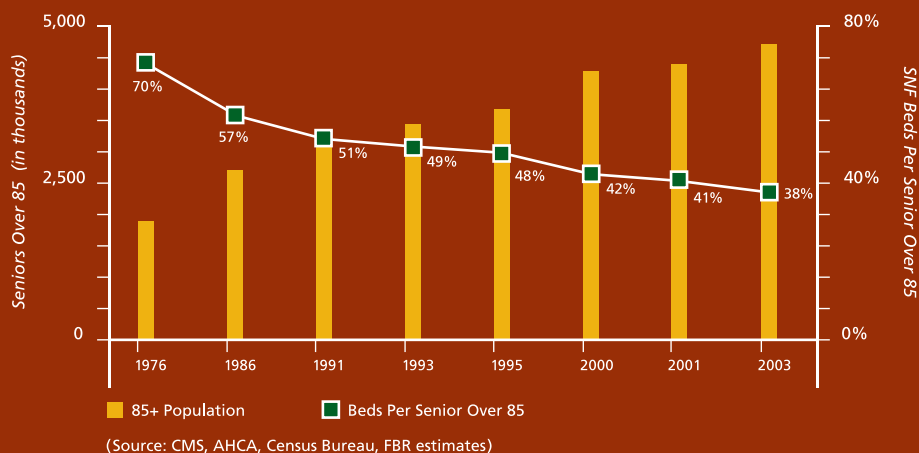
Our senior team of T. Richard Riney, Richard A. Schweinhart and Raymond J. Lewis enjoys a superb combination of skill, experience, integrity and cohesiveness. Supported by Ventas employees who always do their best, we aim to create a respected and proud organization. In the coming year, we all will work as hard as we must to maximize Ventas's opportunities to continue delivering extraordinary value to our shareholders.

Sincerely,



Debra A. Cafaro
Chairman, President and
Chief Executive Officer
March 11, 2005

Supply and Demand Drives Our Business



Demand for skilled nursing facility beds has outstripped supply. This imbalance is not likely to change. As the 80-plus and 85-plus age groups are expected to grow by more than 100% in the next 30 years, the number of beds should remain constrained due to financial and regulatory barriers.

You never get tired of a good thing. Like vanilla ice cream. Like extraordinary performance. Like outsized returns. Like an increasing dividend. Like Ventas.

The value of vanilla.

At Ventas, we have worked to consistently deliver outstanding performance to our investors and stakeholders year after year. That has meant five years of being a leading healthcare REIT and the best overall performing REIT. Because we know our shareholders never get tired of superior performance.

Our results have been driven by our reliable, growing rental stream and our ability to produce double digit growth in our per share FFO. In 2004, normalized FFO increased 17 percent to \$1.80 per share. With our 3.5 percent cash built-in escalators covering most of our portfolio and a pipeline of accretive acquisitions, we offer the best of internal growth and strategic expansion. Because we know our shareholders never get tired of growth.

We take pride in our ability to share the Company's success with our shareholders through our increasing dividend. From the \$0.92 dividend we paid for 2001 through the \$1.44 annual dividend we expect to pay for 2005, we have raised our dividend by 57 percent. Because we know our shareholders never get tired of a secure, growing dividend.

Our business is built on the demographics of the United States' senior population, those 85 and over, who constitute the fastest growing segment of the population and who are most likely to use a skilled nursing facility (SNF) at some point in time. While demand for the facilities rises, the supply of SNFs is expected to remain stable at about 16,000 facilities. That's why we believe the long-term prospects for the SNF sector, which is a significant part of our portfolio, remains extremely attractive. This business proposition becomes even more valuable in the future with the inevitable aging of the baby boom population. At the same time we have broadened our portfolio by adding independent and assisted living facilities so we can offer a full spectrum of senior housing and long-term care options to meet the needs of an aging population. Because we know our shareholders never get tired of favorable supply-demand fundamentals.

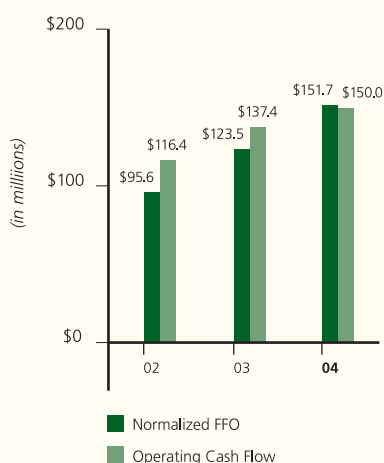


Money is fungible. All dollars are created equal. Well, maybe not.

Because at Ventas we believe the most valuable dollar is one that is in our pocket today and comes from well-structured leases, rigorous balance sheet management, FFO that is cash on hand and a secure dividend.

Not all dollars are created equal.

Normalized FFO and Operating Cash Flow



Our real cash flow from operations approximates our normalized FFO results, which helps fund our investment strategy and support our dividend payments.

The result is that our cash flow approximates our FFO, so that substantially all of our revenues reflect currently received cash rather than promised cash. Those are valuable dollars to our Company.

Conservative management has also enabled our Board of Directors to consistently increase our dividend payments while maintaining a secure payout ratio of about 75 percent of FFO. This balance enables us to share Ventas's success and cash flow growth with our shareholders through an increased current payment and also retain a significant amount of free cash flow to continue our investment program. Those are valuable dollars to our shareholders.

We also continue to reposition our balance sheet with the twin goals of lowering our cost of capital and improving our financial structure to enhance our future borrowing opportunities. Our business is one of providing capital to healthcare companies and to be successful we must constantly seek ways to reduce our costs. We continued to improve our credit statistics during 2004, ending the year with a net debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio of 3.5 times and our net debt to total enterprise value at 27 percent. A rating upgrade from Standard and Poor's mid-year helped us successfully execute two important loan transactions. In the third quarter we refinanced a \$300 million credit line with initial pricing of 125 basis points over LIBOR, compared with the previous line's going-in spread of 275 basis points. And in the fourth quarter we offered \$125 million of 10-year, 6-5/8 percent senior notes. Saved dollars are valuable to our shareholders.

Finally, our triple-net leases are well structured and protected. Our future rents look solid and collectible, and are more valuable because they are more secure.

Looking ahead, we intend to continue driving down our capital costs and moving up the credit curve to wring more value out of our equity dollars – making them more valuable to our shareholders.



Extraordinary.



Ordinary.

At Ventas, value is our middle name. And our first name. And our last name. Because we believe our job is to always find a way to deliver more value to our shareholders.

Getting more than your money's worth.

Checklist

Ventas's 3- to 5-Year Plan

- ☐ Decrease Kindred concentration
- ☐ Improve credit rating/
Lower cost of capital
- ☐ Increase percentage of private pay facilities
- ☐ Actively participate in industry consolidation

Our success is the result of our reliable, growing cash flows. In order for us to continue to add value for our shareholders we are actively implementing our growth and diversification strategy. Our target acquisitions are between \$10 million and \$200 million, but we will consider smaller and larger deals that meet our risk/return hurdles. In addition, we are a proponent of industry consolidation among healthcare REITs because it will give the companies greater liquidity, pooling of risk and diminished costs per dollar of revenue. If and when that occurs, we expect to be an active participant, which will add value for our shareholders.

In 2004, we also saw demand intensify for quality healthcare and senior housing industry assets. As these investments have grown more reliable, the assets we target as part of our growth and diversification strategy have become more desirable. This trend results in higher pricing and decreasing returns in our sector. There are also certain issues on the horizon that may make traditional sale-leaseback financing less attractive to our target customers.

To confront these challenges we may consider incrementally broadening our footprint by seeking out other healthcare investments that are close to what we do, but have better risk-adjusted returns. One approach might be to finance more hospital or biotech assets. Another might be to acquire a small healthcare operating business in our taxable REIT subsidiary that could generate profits and also expand our sale-leaseback business so we can deliver more value to our shareholders.

Our diversification strategy also contemplates the opportunistic disposition of select assets from our Kindred portfolio where we feel we can redeploy the capital into our accretive growth program. A good example is our December 2004 sale of two hospitals to Kindred for \$21.1 million and a \$19.4 million gain. This transaction also demonstrates that we can work with our primary tenant for our mutual benefit and the benefit of our shareholders.

Ventas's core is its highly skilled, ingenious, and knowledgeable team with expertise in business: real estate, finance and healthcare. As a company that is committed to managing for total shareholder return and to our goal of delivering reliable growing cash flows, we seek to make a dollar invested in Ventas worth more than a dollar invested elsewhere – year after year.



Always finding a way to deliver value.





Portfolio Expansion.

Important goals have been achieved in the implementation of Ventas's three dimensional growth and diversification strategy and the stage has been set for our portfolio expansion to continue. We will continue to diversify by asset class, tenant and geography to increase the reliability of our future cash flows.

Acquisition Activity

Facility Type	01/01/04	02/28/05
Skilled Nursing Facilities	194	201
Hospitals*	42	41
Assisted and Independent Living Facilities	1	31
Medical/Office Buildings	0	11
Personal Care Facilities	8	8
Total	245	292

* Reflects the sale of two hospitals to Kindred and the acquisition of one hospital located in Lexington, KY.

Ventas's strategic growth and diversification program has added 47 facilities to our portfolio.

From January 1, 2004, through February 28, 2005, we have invested more than \$400 million, adding 30 independent and assisted living facilities, 11 medical office buildings and 7 skilled nursing facilities to our portfolio, all of which play a key role in our diversification strategy.

We reduced the concentration of rent from our primary tenant, Kindred, to about 76 percent of our total annualized revenues. We expect to continue to reduce our Kindred concentration as we grow.

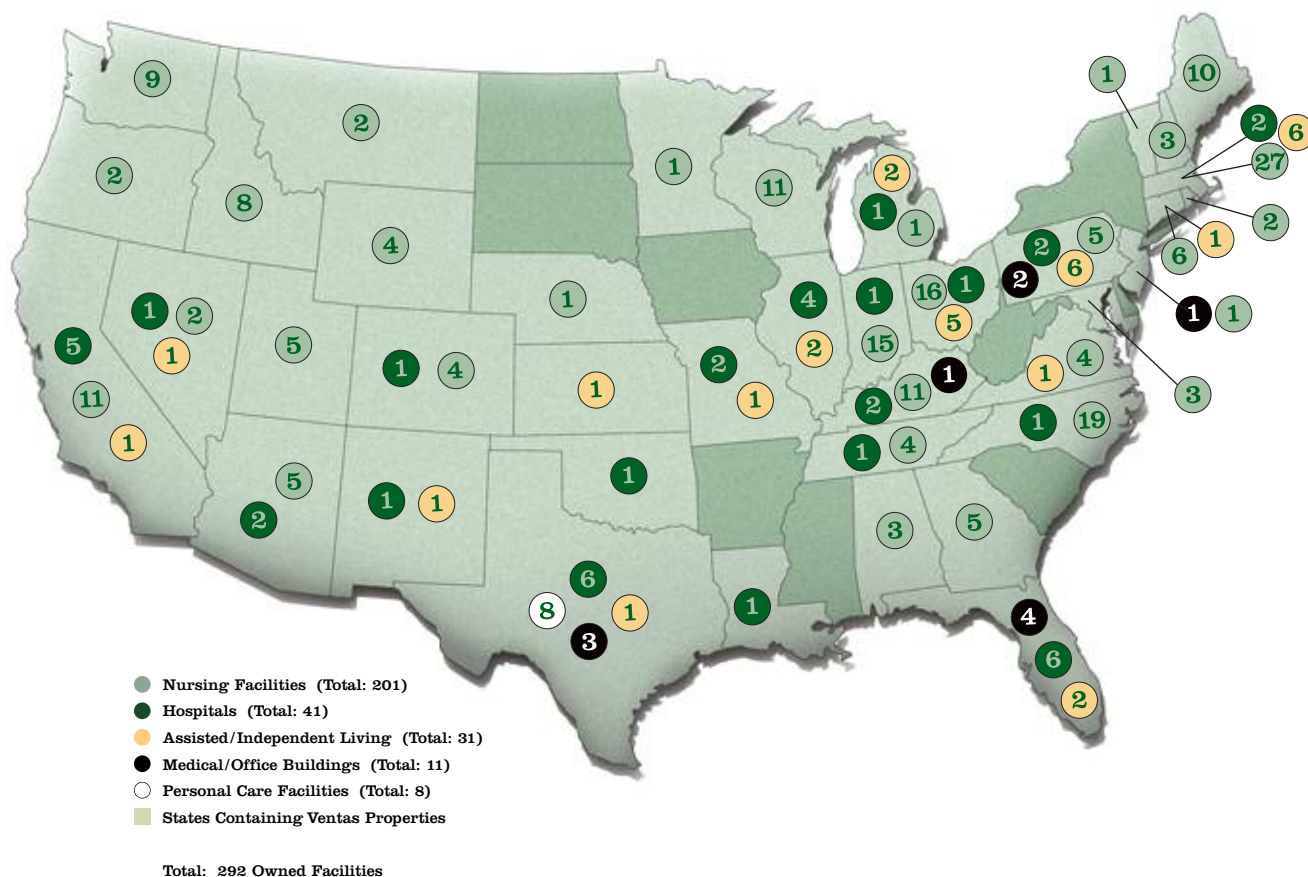
We have increased our "private pay" facilities so that about 16 percent of the Company's annualized revenues were derived from independent and assisted living facilities and other healthcare assets. Skilled nursing facilities now represent about 55 percent of our annualized revenues, and about 29 percent of our annualized revenues come from our hospitals.

Our geographic distribution is across 39 states, with only two states, Massachusetts and California, responsible for 11 percent and 10 percent of our revenues, respectively. That diversification will help insulate our rental streams from any single state reimbursement, regulatory or legal changes.

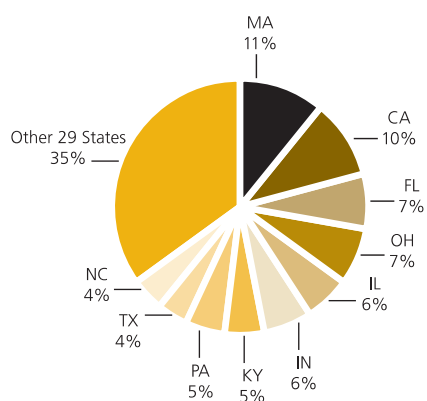
Our acquisition strategy remains solid: We look for high quality assets across the spectrum of healthcare and senior housing. We focus on respected operator tenants, and we seek good rent coverages and intelligent lease structures with downside protection. And, of course, we want those investments to produce future earnings and value for our shareholders.

We are entering 2005 with an active acquisition pipeline and we will continue to implement our strategy of growth and diversification to create long-term value for our shareholders.

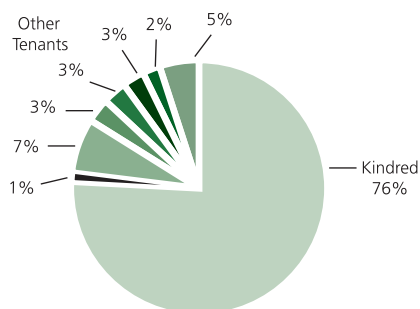
Diversified Portfolio of Ventas Properties (As of February 28, 2005)



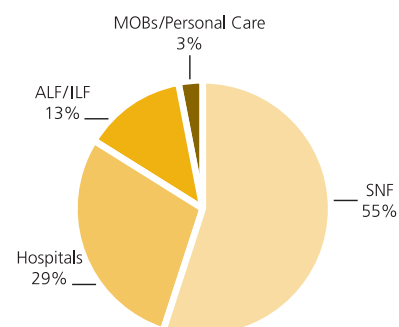
2005 Projected Revenue by State* (Total 39 States)



Portfolio Composition by Tenant (Estimated)



Asset Class Diversification % of Total Revenue

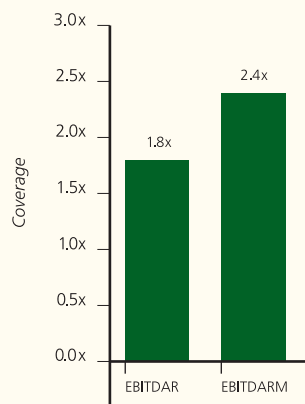


*2005 projected revenue assuming full-year impact of all asset acquisitions during 2005.

Day after day, week after week, month after month, year after year, Ventas has done the same things: it fulfilled its promises, worked hard and performed extraordinarily well. That makes Ventas exceptionally dependable.

Exceptionally dependable.

Superb Coverage



These excellent, above-market coverage ratios in our Kindred portfolio indicate strong underlying operating cash flow in our assets to support future rent payments to Ventas.

Coverage reflects the ratio of Kindred's EBITDAR to rent. EBITDAR is defined as earnings before interest, income taxes, depreciation, amortization, rent and after deducting a 5 percent management fee.

Coverage reflects the ratio of Kindred's EBITDARM to rent. EBITDARM is defined as earnings before interest, income taxes, depreciation, amortization and rent.

Trailing Twelve Months EBITDARM and EBITDAR for the period ended September 30, 2004 (latest date available).

Ventas is respected by analysts, lenders and investors because we do what we say, we have a strong work ethic, and we operate with integrity. We cherish our reputation, and these core principles will continue to guide our decisions.

We are committed to a high standard of corporate governance. We value our Board's independence, with six outside directors and one management director. In 2004, Doug Crocker II was again elected as Ventas's presiding director, with responsibility for chairing the Company's executive sessions and acting as a liaison between the Board's independent directors and the Company's management. We also received a 99th percent corporate governance rating from Institutional Shareholder Services, which puts Ventas in the top one percent of its peer companies across all industries.

As a Company we believe we should share our success with others. In 2004, Ventas initiated a charitable giving program focused on contributions to Chicago and Louisville-based organizations. This program allows Ventas to support its communities, creates heightened awareness of the Company in its home bases and provides opportunities for Ventas employees to engage with each other and feel pride in their Company.

The epitome of dependability has been our ability to consistently deliver quality, reliable and growing cash flows. This reflects the strength of our core portfolio, which has enabled Ventas to produce results that its stakeholders can depend on, even though Medicare and Medicaid reimbursements to our operator tenants can and do fluctuate.

In 2004, we experienced an improving reimbursement environment as both skilled nursing facility (SNF) and long-term acute care hospital (LTAC) Medicare rates increased by 3 percent and 6 percent, respectively. The Centers for Medicare and Medicaid Services (CMS) has proposed an additional Medicare increase for LTACs of 5.5 percent, effective July 1, 2005, as some are calling for reduced Medicare or Medicaid payments to SNFs. Because we are sensitive to the changing political and budgetary landscape in Washington D.C., we designed our triple-net, pooled, multi-facility Kindred Master Leases to deliver reliable and growing future cash flows irrespective of changes in reimbursement.

Even in the face of exogenous change and uncertainty, Ventas is focused on unassailable dependability.



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Selected Financial Data

2004

You should read the following selected financial data in conjunction with our Consolidated Financial Statements and the notes thereto included in this Annual Report.

As of and For the Years Ended December 31,	2004	2003	2002	2001	2000
(in thousands, except per share data)					
Operating Data					
Rental income	\$ 232,911	\$ 189,987	\$ 174,822	\$ 169,392	\$ 212,038
Gain on sale of Kindred common stock	—	9,039	5,014	15,425	—
General, administrative and professional fees	16,917	15,158	12,913	14,902	20,781
United States Settlement	—	—	—	—	96,493
Loss on extinguishment of debt	1,370	84	11,077	1,322	4,207
Interest expense	66,817	61,660	72,384	79,595	86,803
Interest on United States Settlement	—	4,943	5,461	4,592	—
Loss on uncollectible amounts due from tenants	—	—	—	—	43,888
Income (loss) before discontinued operations	100,173	96,135	36,949	46,496	(69,179)
Discontinued operations	20,727	66,618	28,757	4,070	3,727
Net income (loss)	120,900	162,753	65,706	50,566	(65,452)
Per Share Data					
Income (loss) per common share before discontinued operations, basic	\$ 1.20	\$ 1.21	\$ 0.53	\$ 0.68	\$ (1.02)
Net income (loss) per common share, basic	\$ 1.45	\$ 2.05	\$ 0.95	\$ 0.74	\$ (0.96)
Income (loss) per common share before discontinued operations, diluted	\$ 1.19	\$ 1.20	\$ 0.53	\$ 0.67	\$ (1.02)
Net income (loss) per common share, diluted	\$ 1.43	\$ 2.03	\$ 0.93	\$ 0.73	\$ (0.96)
Dividends declared per common share	\$ 1.30	\$ 1.07	\$ 0.95	\$ 0.92	\$ 0.91
Other Data					
Net cash provided by operating activities	\$ 149,958	\$ 137,366	\$ 116,385	\$ 79,893	\$ 85,338
Net cash (used in) provided by investing activities	(298,695)	159,701	(34,140)	2,760	5,359
Net cash provided by (used in) financing activities	69,998	(217,418)	(98,386)	(151,458)	(142,890)
FFO ⁽¹⁾	150,322	152,631	84,083	92,180	(24,221)
Weighted average shares outstanding, basic	83,491	79,340	69,336	68,409	68,010
Weighted average shares outstanding, diluted	84,352	80,094	70,290	69,363	68,131
Balance Sheet Data					
Real estate investments, at cost	\$1,512,211	\$1,090,181	\$1,221,406	\$1,175,838	\$1,176,143
Cash and cash equivalents	3,365	82,104	2,455	18,596	87,401
Kindred common stock	—	—	16,713	55,118	—
Total assets	1,126,935	812,850	895,780	941,859	981,145
Senior notes payable and other debt	843,178	640,562	707,709	848,368	886,385
United States Settlement	—	—	43,992	54,747	96,493

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

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

2004

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

- Key transactions that we completed in 2004;
- Our critical accounting policies and estimates;
- Accounting policies that we adopted in 2004, 2003 and 2002;
- Our results of operations for the last three years;
- Our liquidity and capital resources; and
- Our funds from operations.

Key Transactions in 2004

During 2004, we completed the following key transactions:

- We acquired all of the outstanding common shares of ElderTrust in a cash transaction valued at \$184.0 million, inclusive of \$33.5 million in unrestricted and restricted cash;
- We acquired 15 facilities now leased by affiliates of Brookdale Living Communities, Inc. for a purchase price of \$157.4 million;
- We acquired an additional 11 facilities from various sellers for an aggregate purchase price of \$109.2 million;
- We issued \$125 million of 6-5/8% unsecured senior notes, maturing on October 15, 2014;
- We obtained a new \$300 million secured revolving credit facility initially priced at 125 basis points over LIBOR, an improvement over our previous revolving credit facility which was initially priced at 275 basis points over LIBOR; and
- We raised \$51.1 million of equity with the public sale of two million shares of our common stock.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. We believe that the following critical accounting policies, among others, affect our more significant estimates and judgments used in the preparation of our financial statements.

Long-Lived Assets

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

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

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, primarily consisting of our investments in real estate, for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations and adjust the net book value of leased properties and other long-lived assets to fair value if the sum of the expected future cash flow or sales proceeds is less than book value. An impairment loss is recognized at the time we make any such adjustment. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

Revenue Recognition

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

Legal Contingencies

We are involved in litigation as described in "Note 13—Litigation" of the Notes to Consolidated Financial Statements. We evaluate such matters by (i) ascertaining the probability that such litigation could result in a loss for us and (ii) determining an estimate of any possible loss. In accordance with SFAS No. 5, "Accounting for Contingencies," we accrue for any probable losses that are estimable and disclose any loss contingencies that are possible. If management's assessment of our liability with respect to these actions is incorrect, such matters could have a material adverse effect on us.

Fair Value of Derivative Instruments

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

Adoption of Accounting Policies

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

As required under SFAS No. 123(R), we expect to adopt the provisions of this accounting standard on July 1, 2005. We expect to apply the modified prospective method of adoption in which compensation cost is recognized beginning on the date we adopt the accounting standard for all share-based payments granted after the adoption date and for all awards granted to employees prior to the adoption date that remain unvested on the adoption date. As permitted by SFAS No. 123(R), we currently account for share-based payments to employees using the intrinsic value method under APB Opinion No. 25 and, as such, generally recognize no compensation cost for employee stock options. The adoption of SFAS No. 123(R) is expected to result in an immaterial increase in expense during the second half of 2005 based on unvested options outstanding as of December 31, 2004 and current compensation plans. While the effect of adoption depends on the level of share-based payments granted in the future and unvested grants on the date we adopt SFAS No. 123(R), the effect of this accounting standard on our prior operating results would approximate the effect of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share. See "Note 9—Stockholders' Equity and Stock Options" of the Notes to Consolidated Financial Statements.

In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Correction" ("SFAS 145"). SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" ("SFAS 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 145 that relate to the rescission of SFAS 4 required us 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 145 relating to the rescission of SFAS 4 became effective in fiscal years beginning after May 15, 2002. As required, on January 1, 2003 we adopted SFAS 145. In accordance with SFAS 145, our 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 our net income.

Effective January 1, 2002, we adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). 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 of 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 Income for each of the three years ended December 31, 2004 included herein. See "Note 5—Dispositions" of the Notes to Consolidated Financial Statements.

Results of Operations

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

Years Ended December 31, 2004 and 2003

	Years Ended December 31,		Change	
	2004	2003	\$	%
(dollars in thousands)				
Revenues:				
Rental income	\$232,911	\$189,987	\$ 42,924	22.6%
Interest income from loan receivable	2,958	3,036	(78)	(2.6)
Interest and other income	987	1,696	(709)	(41.8)
Total revenues	236,856	194,719	42,137	21.6
Expenses:				
Property-level operating expenses	1,337	—	1,337	—
General, administrative and professional fees	16,917	15,158	1,759	11.6
Reversal of contingent liability	—	(20,164)	20,164	100.0
Amortization of restricted stock grants	1,207	1,274	(67)	(5.3)
Depreciation	49,035	39,500	9,535	24.1
Net loss on swap breakage	—	5,168	(5,168)	(100.0)
Interest	66,817	61,660	5,157	8.4
Loss on extinguishment of debt	1,370	84	1,286	1531.0
Interest on United States Settlement	—	4,943	(4,943)	(100.0)
Total expenses	136,683	107,623	29,060	27.0
Operating income	100,173	87,096	13,077	15.0
Gain on sale of Kindred common stock	—	9,039	(9,039)	(100.0)
Income before discontinued operations	100,173	96,135	4,038	4.2
Discontinued operations	20,727	66,618	(45,891)	(68.9)
Net income	\$120,900	\$162,753	\$(41,853)	(25.7)%

Revenues

The increase in our 2004 rental income reflects (i) a \$10.4 million increase resulting from the 3.5% annual increase in the rent paid under Kindred Master Leases effective May 1, 2004, and the rent increase from the July 1, 2003 amendment to the Kindred Master Leases, and (ii) the recognition of \$32.1 million in additional rent relating to the properties acquired during 2004. See “Note 6—Mergers and Acquisitions” of the Notes to Consolidated Financial Statements. The rental income from Kindred includes \$2.3 million related to the amortization of deferred revenue recorded as a result of our receipt of Kindred common stock in connection with Kindred’s emergence from bankruptcy on April 20, 2001 and the receipt of \$4.5 million of additional future rent under the Kindred Master Leases.

Interest income from loan receivable represents interest income received in connection with a \$17.0 million mezzanine loan made to Trans Healthcare, Inc. (“THI”) on November 4, 2002. As of February 15, 2005, the mezzanine loan amount outstanding was \$12.4 million.

The decrease in interest and other income is primarily attributable to the recovery in 2003 of a previously written-off receivable.

Expenses

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

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

Depreciation expense increased primarily due to the properties acquired during 2004. See “Note 6—Mergers and Acquisitions” of the Notes to Consolidated Financial Statements.

As a result of anticipated lower variable rate debt balances due to the sale of 10 facilities on December 11, 2003, we entered into an agreement with the counterparty to our interest rate swap to break \$120.0 million of the \$450.0 million notional amount in exchange for a payment to the counterparty of approximately \$8.6 million. In addition, we recognized \$3.4 million of a previously deferred gain recorded in connection with the 1999 transaction to shorten the maturity of a separate interest rate swap. The \$5.2 million net expense, which was previously reported in accumulated other comprehensive income on the Consolidated Balance Sheet, was recognized as a net expense in the Consolidated Statement of Income for the year ended December 31, 2003.

Interest expense includes \$3.9 million and \$4.1 million of amortized deferred financing costs for the years ended December 31, 2004 and 2003, respectively. Interest expense included in discontinued operations was \$0.4 million and \$3.5 million for the years ended December 31, 2004 and 2003, respectively. Total interest expense, excluding interest on the United States settlement but including interest allocated to discontinued operations, increased \$2.0 million in 2004 over 2003. The increase in interest expense from continuing

and discontinued operations was due primarily to a \$6.6 million increase related to the assumed debt for the ElderTrust merger and Brookdale transactions, partially offset by (i) a \$3.2 million decrease from lower effective interest rates, (ii) a \$0.8 million decrease from the amortization of a deferred gain recorded in connection with the 1999 transaction to shorten the maturity of our previous \$800.0 million notional amount interest rate swap (the "1998 Swap"), (iii) a \$0.3 million decrease from reduced principal balances of our existing debt and (iv) a \$0.3 million decrease in amortization of deferred financing costs.

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

Interest expense on our settlement with the United States Department of Justice declined to zero in 2004 from \$4.9 million in 2003 due to full prepayment in 2003. On June 30, 2003, we incurred a \$2.7 million non-cash expense relating to the early repayment of the settlement that is reflected as Interest on United States Settlement on our Consolidated Statement of Income for the year ended December 31, 2003. There was no prepayment penalty or other cash expense upon early repayment of the United States settlement. See "Note 11—Commitments and Contingencies" of the Notes to Consolidated Financial Statements.

Years Ended December 31, 2003 and 2002

	Years Ended December 31,		Change	
	2003	2002	\$	%
(dollars in thousands)				
Revenues:				
Rental income	\$189,987	\$174,822	\$ 15,165	8.7%
Interest income from loan receivable	3,036	995	2,041	205.1
Interest and other income	1,696	1,178	518	44.0
Total revenues	194,719	176,995	17,724	10.0
Expenses:				
General, administrative and professional fees	15,158	12,913	2,245	17.4
Reversal of contingent liability	(20,164)	—	(20,164)	—
Amortization of restricted stock grants	1,274	1,853	(579)	(31.2)
Depreciation	39,500	38,229	1,271	3.3
Net loss on swap breakage	5,168	5,407	(239)	(4.4)
Interest	61,660	72,384	(10,724)	(14.8)
Loss on extinguishment of debt	84	11,077	(10,993)	(99.2)
Interest on United States Settlement	4,943	5,461	(518)	(9.5)
Total expenses	107,623	147,324	(39,701)	(26.9)
Operating income	87,096	29,671	57,425	193.5
Gain on sale of Kindred common stock	9,039	5,014	4,025	80.3
Income before provision (benefit) for income taxes, net gain real estate disposals and discontinued operations	96,135	34,685	61,450	177.2
Provision (benefit) for income taxes	—	(2,200)	2,200	100.0
Income before net gain on real estate disposals and discontinued operations	96,135	36,885	59,250	160.6
Net gain on real estate disposals	—	64	(64)	(100.0)
Income before discontinued operations	96,135	36,949	59,186	160.2
Discontinued operations	66,618	28,757	37,861	131.7
Net income	\$162,753	\$ 65,706	\$ 97,047	147.7%

Gain on Sale of Kindred Common Stock

During the year ended December 31, 2003, we disposed of 920,814 shares of Kindred common stock and recognized a gain of \$9.0 million. Since the sale, we have not owned any shares of Kindred common stock.

Discontinued Operations

The decrease in discontinued operations is a result of a lower net gain on the sale of properties in 2004. Discontinued operations in 2003 includes the net income of 27 properties sold in 2003 and in 2004, whereas the discontinued operations in 2004 includes only the net income of two properties sold in 2004.

In 2004, we completed the sale of two facilities for \$21.1 million in net cash proceeds and recognized a net gain on the sale of \$19.4 million. In addition, the tenant paid us lease termination fees approximating \$0.5 million. In 2003, we completed the sale of 27 facilities for \$139.2 million in net cash proceeds and recognized a net gain on the sale of \$51.8 million. In addition, the tenants paid us lease termination fees approximating \$10.1 million. The net gains and lease termination fees are included in discontinued operations for the respective years in which the dispositions occurred.

See "Note 5—Dispositions" of the Notes to Consolidated Financial Statements.

Revenues

The increase in 2003 rental income reflects (i) the 3.5% increase in the rent paid under the Kindred Master Leases effective May 1, 2003, (ii) the \$8.6 million increase in annualized rent on certain Kindred facilities effective July 1, 2003 and (iii) \$6.0 million in additional rent earned during the year ended December 31, 2003 under our master lease with THI.

The rental income from Kindred includes \$2.3 million related to the amortization of deferred revenue recorded as a result of our receipt of Kindred common stock on April 20, 2001 and the receipt of \$4.5 million of additional future rent under the Kindred Master Leases.

Interest income from loan receivable represents interest income received in connection with the THI mezzanine loan.

The increase in interest and other income is primarily attributable to the recovery in 2003 of a previously written-off receivable. In addition, interest income increased due to higher cash balances on hand to invest during 2003, which was partially offset by reduced interest rates.

Expenses

The increase in general, administrative and professional fees is primarily attributable to costs associated with our initiative to develop and market our strategic diversification program, to improve our overall asset management system, and to attract and retain appropriate personnel to achieve our business objectives.

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

For the year ended December 31, 2003, we recorded an expense of \$5.2 million related to the loss on a \$120 million notional swap breakage. For the year ended December 31, 2002, we recorded an expense of \$5.4 million related to the loss on a \$350 million notional swap breakage. See "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

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 \$3.5 million and \$6.2 million for the years ended December 31, 2003 and 2002, respectively. Total interest expense, excluding interest on the United States settlement but including interest allocated to discontinued operations, decreased \$13.4 million in 2003 over 2002. The decrease in interest expense from

continuing and discontinued operations was due primarily to (i) a \$9.9 million decrease as a result of reduced debt balances, (ii) a \$0.4 million decrease from reduced interest rates, (iii) a \$1.6 million decrease in swap ineffectiveness (see "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements), and (iv) 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 1998 Swap. We recorded swap ineffectiveness in the Consolidated Statement of Income of \$0.3 million and \$1.9 million for the years ended December 31, 2003 and 2002, respectively, to reflect the value of the excess of the notional amount of the 1998 Swap and 2003-2008 Swap (as defined below) over our future anticipated variable rate debt balance.

In April 2002, we refinanced indebtedness under our prior credit agreement and incurred a loss from extinguishment of debt of \$6.9 million related to the write-off of unamortized deferred financing costs associated with our previous revolving credit facility. In December 2002, we incurred an additional \$4.2 million loss related to the repurchase of \$34.0 million principal amount of our outstanding senior notes consisting of the write-off of unamortized deferred financing costs and premiums paid to repurchase.

On June 30, 2003, we incurred a \$2.7 million expense relating to the early repayment of our United States settlement that is reflected as Interest on United States Settlement on the Consolidated Statement of Income for the year ended December 31, 2003.

Gain on Sale of Kindred Common Stock

During the year ended December 31, 2003, we disposed of 920,814 shares of Kindred common stock and recognized a gain of \$9.0 million. During the year ended December 31, 2002, we disposed of 159,500 shares of Kindred common stock and recognized a gain of \$5.0 million.

Discontinued Operations

The increase in discontinued operations is a result of a higher net gain on the sale of properties in 2003, offset by the loss of net income due to the sales. Discontinued operations in 2002 includes the net income of properties sold in 2002 and in 2003, whereas the discontinued operations in 2003 includes only the net income of properties sold in 2003.

In the second quarter ended June 30, 2002, we sold a skilled nursing facility for \$1.5 million in net cash proceeds to an unrelated third party and recognized a gain of \$1.1 million, which was included as a component of discontinued operations, and we sold a hospital facility for \$27.1 million in net cash proceeds to an unrelated third party and recognized a gain of \$22.4 million, which was also included as a component of discontinued operations.

Funds from Operations

Our funds from operations ("FFO") for the five years ended December 31, 2004 are summarized in the following table:

For the Years Ended December 31,	2004	2003	2002	2001	2000
(in thousands)					
Net income (loss)	\$120,900	\$162,753	\$ 65,706	\$50,566	\$(65,452)
Adjustments:					
Depreciation on real estate assets	48,647	39,216	38,012	37,855	38,068
Realized gain on sale of real estate assets	—	—	(64)	(290)	(957)
Other items:					
Discontinued operations					
Real estate depreciation – discontinued	203	2,443	3,879	4,049	4,120
Gain on sale of real estate	(19,428)	(51,781)	(23,450)	—	—
Funds from operations	\$150,322	\$152,631	\$ 84,083	\$92,180	\$(24,221)

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

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

Asset/Liability Management

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

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

Market Risk

We receive revenue primarily by leasing our assets under leases that are long-term triple-net leases in which the rental rate is generally fixed with annual escalators, subject to certain limitations. We also earn revenue from the THI mezzanine loan. Our obligations under our revolving credit facility are floating rate obligations whose interest rate and related monthly interest payments vary with the movement in LIBOR. The general fixed nature of our assets and the variable nature of our obligations create interest rate risk. If interest rates were to rise significantly, our lease and other revenue might not be sufficient to meet our debt obligations. In order to mitigate this risk, on September 28, 2001, we entered into an interest rate swap agreement in the notional amount of \$450 million to hedge floating rate debt for the period between July 1, 2003 and June 30, 2008 (the "2003-2008 Swap"). The swap is treated as a cash flow hedge for accounting purposes and is with a highly rated counterparty on which we pay a fixed rate of 5.385% and receive LIBOR from the counterparty. On December 11, 2003, due to our lower expected future variable debt balances, we reduced the notional amount of the swap for the period from December 11, 2003 through June 29, 2006 from \$450 million to \$330 million. See "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements. There are no collateral requirements under the swap. The notional amount of the 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

To highlight the sensitivity of the interest rate swap and fixed rate debt to changes in interest rates, the following summary shows the effects of a hypothetical instantaneous change of 100 basis points (BPS) in interest rates as of December 31, 2004 and 2003 (in thousands):

	As of December 31,			
	2004		2003	
	Swap	Fixed Rate Debt	Swap	Fixed Rate Debt
Notional amount	\$330,000	N/A	\$330,000	N/A
Book value	N/A	(\$582,251)	N/A	(\$366,038)
Fair value ⁽¹⁾	(16,550)	(635,990)	(27,868)	(405,563)
Fair value reflecting change in interest rates: ⁽¹⁾				
–100 BPS	(25,489)	(672,024)	(40,364)	(427,663)
+100 BPS	(7,917)	(602,641)	(15,906)	(384,922)

(1) The change in fair value of the swap was due to the general increase in interest rates. The change in fair value of fixed rate debt was due to (i) the assumption of approximately \$96.3 million in fixed rate debt as a result of our ElderTrust merger and acquisitions during 2004, the fair value of which approximated book value at December 31, 2004, (ii) the issuance of \$125.0 million in Senior Notes (as defined below) in October 2004, the fair value of which was approximately \$127.5 million at December 31, 2004, and (iii) general increase in interest rates.

N/A Not applicable.

We paid \$13.3 million under the swap during the year ended December 31, 2004. Assuming that interest rates do not change, we estimate that we will pay approximately \$7.7 million on the swap during the year ending December 31, 2005.

The carrying value of our variable rate debt approximates fair value. There is no cash flow impact from the fluctuation of interest rates because we currently hedge 100% of our variable rate debt. The fair value of our fixed rate debt is \$636.0 million, which is based on open market trading activity provided by a third party for our Senior Notes and based on rates offered for similar arrangements for our mortgage indebtedness.

Credit Risk

As a result of our spin-off of Kindred in 1998, we have a significant concentration of credit risk with Kindred under the Kindred Master Leases. For the years ended December 31, 2004 and 2003, Kindred accounted for \$192.4 million, or 81.2% of our total revenues, and \$182.0, or 93.5% of our total revenues, respectively. Accordingly, Kindred's financial condition and ability to meet our rent obligations will largely determine our rental revenues and our ability to make distributions to our stockholders. In addition, any failure by Kindred to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to enlist and maintain patients in its facilities. See "Risk Factors—Risks Arising from Our Business—We are dependent on Kindred; Kindred's inability or unwillingness to satisfy its obligations under its agreements with us could significantly harm us and our ability to service our indebtedness and other obligations and to make distributions to our stockholders as required to continue to qualify as a REIT" included in Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2004 and "Note 4—Concentration of Credit Risk" of the Notes to Consolidated Financial Statements. We monitor our credit risk under our lease agreements with our tenants by, among other things, (i) reviewing and analyzing information regarding the healthcare industry generally, publicly available information regarding tenants, and information provided by the tenants and borrowers under our lease and other agreements, and (ii) having periodic discussions with tenants, borrowers and their representatives.

Liquidity and Capital Resources

During 2004, our principal sources of liquidity were proceeds from equity and debt issuances, cash flow from operations, borrowings under revolving credit facilities and disposition of real estate assets, proceeds from stock option exercises, and proceeds from the Distribution Reinvestment and Stock Purchase Plan. We anticipate that cash flow from operations over the next twelve months will be adequate to fund our business operations, dividends to shareholders and debt amortization. Capital requirements for acquisitions may require funding from borrowings, assumption of debt from the seller, issuance of secured or unsecured long-term debt or other securities or equity offerings.

We intend to continue to fund future investments through cash flow from operations, borrowings under our revolving credit facility, disposition of assets and issuance of secured or unsecured long-term debt or other securities. As of December 31, 2004, we had cash and cash equivalents of \$3.4 million, escrow deposits and restricted cash of \$25.7 million (comprised of \$5.0 million of reserves under the CMBS Loan (as defined below), \$11.2 million that we paid into escrow as required under our mortgage agreements, and a deposit of \$9.5 million in connection with an IRS Section 1031 Exchange), and unused revolving credit availability of \$251.3 million under our revolving credit facility.

CMBS Transaction

On December 12, 2001, we raised \$225.0 million in gross proceeds from the completion of a commercial mortgage backed securitization transaction (the "CMBS Loan"). As of December 31, 2004, the CMBS Loan bears interest at a weighted average of LIBOR plus 1.4935%, with principal and interest payable monthly. The CMBS Loan matures on December 9, 2006, at which time a principal balloon payment of approximately \$206.4 million will be due, assuming all scheduled amortization payments are made and no prepayments are made. 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 transferred by Ventas Realty to Ventas Finance I, LLC ("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 nonrecourse to Ventas Finance and us. See "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

Revolving Credit Facility

We obtained a new \$300.0 million revolving credit facility in September 2004 that replaced our previous revolving credit facility. The revolving credit facility bears interest at LIBOR plus a percentage ranging 1.05% to 1.75%, depending on our consolidated leverage ratio. As of December 31, 2004, borrowings under the revolving credit facility were bearing interest at LIBOR plus 1.25%. We also incur an annual facility fee of 25 basis points payable in quarterly installments. The borrowing rate on the revolving credit facility at December 31, 2004 was approximately 3.65%. Initial borrowings under the revolving credit facility were used to refinance all of the amounts outstanding under our previous revolving credit facility and pay off the \$60.0 million term loan under our previous revolving credit facility (the "Tranche B Term Loan"). Our current revolving credit facility matures in September 2007, subject to a one-year extension.

The outstanding aggregate principal balance of the revolving credit facility may not exceed either (i) the borrowing base (as described below) or (ii) \$300.0 million. As of December 31, 2004, the outstanding principal balance under the revolving credit facility (excluding outstanding letters of credit of \$0.5 million) was \$39.0 million and there was no term loan. Subject to the terms of the revolving credit facility, we have the option to increase our borrowing capacity to an amount not to exceed \$450.0 million.

As of December 31, 2004, the borrowing base under the revolving credit facility was \$290.8 million. The borrowing base is the sum of (i) sixty-five percent (65%) of the aggregate appraised property value of the borrowing base properties, plus (ii) 100% of amounts on deposit in certain cash collateral or pledged accounts. The borrowing base properties are currently comprised of 44 owned or leased real properties, which are also mortgaged to secure the revolving credit facility. As of December 31, 2004, the borrowing base properties had a net book value of \$113.5 million and were leased to Kindred pursuant to Master Lease No. 1.

The agreement relating to the revolving credit facility contains a number of restrictive covenants. See "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

Senior Notes Offering

In October 2004, we completed the offering of 6-5/8% Senior Notes due October 15, 2014 of our subsidiaries, Ventas Realty and Ventas Capital Corporation ("the Issuers"), in the aggregate principal amount of \$125.0 million (the "2014 Senior Notes"). In April 2002, we completed the offering of 8-3/4% Senior Notes due May 1, 2009 of the Issuers in the aggregate principal amount of \$175.0 million (the "2009 Senior Notes") and 9% Senior Notes due May 1, 2012 of the Issuers, in the aggregate principal amount of \$225.0 million (the "2012 Senior Notes" and, together with the 2009 Senior Notes and the 2014 Senior Notes, the "Senior Notes"). On December 31, 2002, we purchased \$0.8 million principal amount of 2009 Senior Notes and \$33.2 million principal amount of 2012 Senior Notes in open market transactions. As of December 31, 2004, \$125.0 million principal amount of 2014 Senior Notes, \$174.2 million principal amount of 2009 Senior Notes and \$191.8 million principal amount of 2012 Senior Notes were outstanding. We and certain of our subsidiaries have fully and unconditionally guaranteed the Senior Notes.

Pursuant to the registration rights agreement entered into in connection with the 2014 Senior Notes offering, on January 28, 2005, we completed an offer to exchange the 2014 Senior Notes with a new series of notes that are registered under the Securities Act of 1993, as amended, and are otherwise substantially identical to the outstanding 2014 Senior Notes, except that certain transfer restrictions, registration rights and liquidated damages do not apply to the new notes. We did not receive any additional proceeds in connection with the exchange offer.

The Senior Notes are subject to a number of restrictive covenants. See "Note 7—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

Dividends

In order to continue to qualify as a REIT, we must make annual distributions to our stockholders of at least 90% of REIT taxable income (excluding net capital gain). We declared dividends greater than 100% of estimated taxable income for 2004 and intend to pay a dividend greater than 100% of taxable income for 2005.

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

Capital Expenditures and Property Acquisitions

Except with respect to our medical office buildings, capital expenditures to maintain and improve the leased properties generally will be incurred by our tenants. Accordingly, we do not believe that we will incur any major expenditures in connection with the leased properties. After the expiration of the leases, or in the event that the tenants are unable or unwilling to meet their obligations under the leases, we anticipate that any expenditures relating to the maintenance of leased properties for which we may become responsible will be funded by cash flows from operations or through additional borrowings. To the extent that unanticipated expenditures or significant borrowings are required, our liquidity may be affected adversely. Our ability to make expenditures and borrow funds is restricted by the terms of our revolving credit facility and the Senior Notes.

Shelf Registration Statement and Equity Offering

On June 19, 2002, we 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.

On March 15, 2004, we completed the sale of 2,000,000 shares of our common stock in an underwritten public offering under the shelf registration statement. We received \$51.1 million in net

proceeds from the sale, which we used to repay indebtedness under our revolving credit facility and for general corporate purposes, including the funding of acquisitions. As of December 31, 2004, \$599.1 million of securities remained available for offering under the shelf registration statement.

During the fourth quarter ended December 31, 2002, we completed the sale of 9,000,000 shares of our common stock in a joint equity offering with Tenet Healthcare Corporation ("Tenet"). In the offering, Tenet sold all 8,301,067 shares of our common stock that it held. Our net proceeds from the sale were \$93.6 million, which we used to repay outstanding indebtedness, including the indebtedness incurred by us to invest in transactions with THI.

Other

In 2004, we assumed facility level mortgage debt in connection with acquisitions of certain facilities and the ElderTrust merger. Outstanding facility level mortgage debt was approximately \$100.5 million as of December 31, 2004. See "Note 6—Mergers and Acquisitions" of the Notes to Consolidated Financial Statements.

In 2000, we recorded a \$96.5 million charge related to the United States settlement. Under the United States settlement, we were required to pay \$103.6 million to the federal government, of which \$34.0 million was paid on April 20, 2001, the date of Kindred's emergence from bankruptcy. 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%. We were required to pay \$16.2 million in principal and interest in 2003 under the United States settlement. On June 30, 2003, we 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.

We received proceeds on the exercises of stock options in the amounts of \$17.7 million and \$22.6 million for the years ended December 31, 2004 and 2003, respectively. Future proceeds on the exercises of stock options are primarily affected by the future performance of our stock price and the number of options outstanding. Options outstanding have decreased to 1.6 million as of December 31, 2004, from 2.6 million and 4.2 million as of December 31, 2003 and 2002, respectively.

We generated net proceeds from our Distribution Reinvestment and Stock Purchase Plan of \$5.3 million during the fourth quarter of 2004 and \$13.1 million for the year ended December 31, 2004. Beginning in March 2005, we are offering a 1% discount on the purchase price of our stock to shareholders who reinvest their dividends and/or make optional cash purchases of common stock through the plan. During 2004 we offered a 2% discount. Each month or quarter, as applicable, we may lower or eliminate the discount without prior notice, thereby affecting the future proceeds that we receive from this plan.

We have outstanding loans to certain current and former executive officers in the aggregate principal amount of approximately \$3.2 million as of December 31, 2004, down from \$3.8 million at December 31, 2003. The loans are payable over ten years beginning, in each case, on the date such loan was made. See "Note 15—Related Party Transactions" of the Notes to Consolidated Financial Statements.

Cash Flows

Net cash provided by operating activities totaled \$150.0 million and \$137.4 million for the years ended December 31, 2004 and 2003, respectively. The increase in 2004 cash flows is primarily a result of increases due to rent escalators and additional rent net of interest expense relating to the properties acquired during 2004.

Net cash used in investing activities for the year ended December 31, 2004 was \$298.7 million. We invested \$323.7 million in real property which was financed through borrowings under the revolving credit facility and cash on hand and sold two facilities for proceeds of \$21.1 million. Net cash provided by investing activities for the year ended December 31, 2003 was \$159.7 million. We received \$139.2 million in proceeds from the disposal of real estate properties and \$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. We made a net investment in transactions with THI of \$68.9 million, received \$28.6 million in proceeds from the disposal of real estate properties, and received \$7.0 million in proceeds from the sale of the Kindred common stock.

Net cash provided by financing activities totaled \$70.0 million for the year ended December 31, 2004. The proceeds included (i) \$125.0 million from the issuance of the 2014 Senior Notes, (ii) \$64.2 million from the issuance of common stock, (iii) \$39.0 million from net borrowings on the revolving credit facility and (iv) \$17.7 million from the issuance of common stock upon exercise of stock options. The uses included (i) an aggregate principal payment of \$67.0 million on our Tranche B Term Loan, CMBS Loan and other mortgage loans, and (ii) \$103.5 million of cash dividend payments.

Net cash used in financing activities totaled \$217.4 million for the year ended December 31, 2003. The uses included (i) an aggregate principal payment of \$67.1 million on our revolving credit facility and the CMBS Loan, (ii) \$37.4 million payment in 2003 for the settlement of the repurchase of the Senior Notes that occurred on December 31, 2002, (iii) \$8.6 million in swap breakage fees, (iv) full repayment on the United States settlement of \$46.6 million and (v) \$80.2 million of cash dividend payments. The uses were offset by \$22.6 million of proceeds from the issuance of common stock upon exercise of stock options.

Net cash used in financing totaled \$98.4 million for the year ended December 31, 2002. The uses include (i) a net of \$106.7 million payment of principal on our revolving credit facility and the CMBS Loan, (ii) \$15.1 million in financing fees, (iii) \$12.8 million in swap breakage costs, (iv) \$50.1 million of cash dividend payments, and (v) \$10.8 million of principal payments on the United States settlement. The uses were offset by net proceeds of \$97.2 million from the issuance of common stock including the net proceeds of \$93.6 million from the issuance of nine million shares and \$3.6 million from the exercise of stock options.

On December 31, 2002, we repurchased through open market purchases \$0.8 million principal amount of 2009 Senior Notes and \$33.2 million principal amount of 2012 Senior Notes. The total purchase price aggregated \$37.4 million. As a result of these purchases, we reported a loss from the extinguishment of debt of \$4.2 million in the fourth quarter ended December 31, 2002.

Contractual Obligations

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

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations ⁽¹⁾⁽²⁾	\$1,226,443	\$64,014	\$366,277 ⁽³⁾	\$293,750 ⁽⁴⁾	\$502,402 ⁽⁵⁾
Obligations under interest rate swap ⁽²⁾	16,550	7,723	8,061	766	—
Operating lease obligations	1,364	379	771	214	—
Total	\$1,244,357	\$72,116	\$375,109	\$294,730	\$502,402

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

(2) Interest on variable rate debt and obligations under the interest rate swap were based on forward rates obtained as of December 31, 2004.

(3) Includes a \$206.4 million balloon payment due December 2006 on the CMBS Loan.

(4) Includes \$174.2 million outstanding principal amount of the 2009 Senior Notes.

(5) Includes \$191.8 million outstanding principal amount of the 2012 Senior Notes, and \$125.0 million of the 2014 Senior Notes.

In connection with the Kindred spin-off, we assigned our former third-party lease obligations and third-party guarantee agreements to Kindred. As of December 31, 2004, we believe that the aggregate exposure under our third-party lease obligations was approximately \$26.0 million and that we have no material exposure under the third-party guarantee agreements. Kindred has agreed to indemnify and hold us harmless from and against all claims against us arising

out of the third-party leases, and we do not expect to incur any liability under those leases. However, we cannot assure you that Kindred will have sufficient assets, income and access to financing to enable it to satisfy, or that it will continue to honor its obligations under the indemnity agreement relating to the third-party leases. See "Note 11—Commitments and Contingencies" of the Notes to Consolidated Financial Statements.

Management Report on Internal Control over Financial Reporting 2004

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

Management, under the supervision of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the

Company's internal control over financial reporting as of December 31, 2004 was effective. All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Therefore, the Company's internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

Report of Independent Registered Public Accounting Firm

2004

Stockholders and Board of Directors

Ventas, Inc.

We have audited the accompanying consolidated balance sheets of Ventas, Inc. as of December 31, 2004 and 2003, 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, 2004. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ventas, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Ventas, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2005, expressed an unqualified opinion thereon.

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 and changed its method of accounting for disposal of long-lived assets in 2002.

Ernst + Young LLP

Chicago, Illinois
February 22, 2005

Report of Independent Registered Public Accounting Firm

on Internal Control over Financial Reporting

2004

Stockholders and Board of Directors

Ventas, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Ventas, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Ventas, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the

company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Ventas, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Ventas, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003, 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, 2004, of Ventas, Inc. and our report dated February 22, 2005, expressed an unqualified opinion thereon.

Ernst + Young LLP

Chicago, Illinois
February 22, 2005

Consolidated Balance Sheets

2004

As of December 31, (in thousands, except per share amounts)	2004	2003
Assets		
Real estate investments:		
Land	\$ 147,327	\$ 104,300
Building and improvements	1,364,884	985,881
	1,512,211	1,090,181
Accumulated depreciation	(454,110)	(408,891)
Net real estate property	1,058,101	681,290
Loan receivable, net	13,031	16,455
Net real estate investments	1,071,132	697,745
Cash and cash equivalents	3,365	82,104
Escrow deposits and restricted cash	25,710	7,575
Deferred financing costs, net	13,550	13,465
Notes receivable from employees	3,216	3,772
Other	9,962	8,189
Total assets	\$1,126,935	\$ 812,850
Liabilities and stockholders' equity		
Liabilities:		
Senior Notes payable and other debt	\$ 843,178	\$ 640,562
Deferred revenue	12,887	15,308
Interest rate swap agreements	16,550	27,868
Accrued dividend	27,498	21,614
Accrued interest	8,743	5,821
Accounts payable and other accrued liabilities	27,461	14,968
Deferred income taxes	30,394	30,394
Total liabilities	966,711	756,535
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10,000 shares authorized, unissued	—	—
Common stock, \$0.25 par value; authorized 180,000 shares; 85,131 and 82,608 shares issued at December 31, 2004 and 2003, respectively	21,283	20,652
Capital in excess of par value	208,903	162,466
Unearned compensation on restricted stock	(633)	(748)
Accumulated other comprehensive loss	(9,114)	(18,294)
Retained earnings (deficit)	(45,297)	(56,790)
	175,142	107,286
Treasury stock, 532 and 1,817 shares at December 31, 2004 and 2003, respectively	(14,918)	(50,971)
Total stockholders' equity	160,224	56,315
Total liabilities and stockholders' equity	\$1,126,935	\$ 812,850

See accompanying notes.

Consolidated Statements of Income

2004

For the Years Ended December 31,	2004	2003	2002
(in thousands, except per share amounts)			
Revenues:			
Rental income	\$232,911	\$189,987	\$174,822
Interest income from loan receivable	2,958	3,036	995
Interest and other income	987	1,696	1,178
Total revenues	236,856	194,719	176,995
Expenses:			
Property-level operating expenses	1,337	—	—
General, administrative and professional fees	16,917	15,158	12,913
Reversal of contingent liability	—	(20,164)	—
Amortization of restricted stock grants	1,207	1,274	1,853
Depreciation	49,035	39,500	38,229
Net loss on swap breakage	—	5,168	5,407
Interest	66,817	61,660	72,384
Loss on extinguishment of debt	1,370	84	11,077
Interest on United States Settlement	—	4,943	5,461
Total expenses	136,683	107,623	147,324
Operating income	100,173	87,096	29,671
Gain on sale of Kindred common stock	—	9,039	5,014
Income before provision (benefit) for income taxes, net gain on real estate disposals and discontinued operations	100,173	96,135	34,685
Provision (benefit) for income taxes	—	—	(2,200)
Income before net gain on real estate disposals and discontinued operations	100,173	96,135	36,885
Net gain on real estate disposals	—	—	64
Income before discontinued operations	100,173	96,135	36,949
Discontinued operations	20,727	66,618	28,757
Net income	\$120,900	\$162,753	\$ 65,706
Earnings per common share:			
Basic:			
Income before discontinued operations	\$ 1.20	\$ 1.21	\$ 0.53
Net income	\$ 1.45	\$ 2.05	\$ 0.95
Diluted:			
Income before discontinued operations	\$ 1.19	\$ 1.20	\$ 0.53
Net income	\$ 1.43	\$ 2.03	\$ 0.93
Shares used in computing earnings per common share:			
Basic	83,491	79,340	69,336
Diluted	84,352	80,094	70,290

See accompanying notes.

Consolidated Statements of Stockholders' Equity

2004

For the Years Ended December 31, 2004, 2003 and 2002	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
(in thousands, except per share amounts)							
Balance at January 1, 2002	\$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
Comprehensive income:							
Net income	—	—	—	—	120,900	—	120,900
Unrealized loss on interest rate swaps	—	—	—	(1,965)	—	—	(1,965)
Reclassification adjustment for realized loss on interest rate swaps included in net income during the year	—	—	—	11,145	—	—	11,145
Comprehensive income							130,080
Dividends to common stockholders — \$1.30 per share	—	—	—	—	(109,407)	—	(109,407)
Proceeds from issuance of shares for offering, net	631	63,575	—	—	—	—	64,206
Proceeds from issuance of shares for stock plans, net	—	(16,854)	—	—	—	34,653	17,799
Grant of restricted stock, net of forfeitures	—	(284)	(1,092)	—	—	1,400	24
Amortization of restricted stock grants	—	—	1,207	—	—	—	1,207
Balance at December 31, 2004	\$21,283	\$208,903	\$ (633)	\$ (9,114)	\$ (45,297)	\$ (14,918)	\$160,224

See accompanying notes.

Consolidated Statements of Cash Flows

2004

For the Years Ended December 31, (in thousands)	2004	2003	2002
Cash flows from operating activities:			
Net income	\$ 120,900	\$ 162,753	\$ 65,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation (including amounts in discontinued operations)	49,238	41,943	42,108
Amortization of deferred financing costs	3,895	4,095	3,706
Amortization of restricted stock grants	1,207	1,274	1,853
Reversal of contingent liability	—	(20,164)	—
Straight-lining of rental income	(2,462)	(108)	(188)
Gain on sale of Kindred common stock	—	(9,039)	(5,014)
Gain on sale of assets (including amounts in discontinued operations)	(19,428)	(51,781)	(23,514)
Loss on impairment of asset (included in discontinued operations)	—	845	—
Loss on extinguishment of debt	1,370	84	11,077
Amortization of deferred revenue	(2,577)	(3,707)	(2,711)
Net loss on swap breakage	—	5,168	5,407
Other	(2,016)	(212)	2,023
Changes in operating assets and liabilities:			
(Increase) decrease in escrow deposits and restricted cash	(8,965)	12,378	820
Increase in other assets	(102)	(1,892)	(1,338)
Increase (decrease) in accrued interest	2,922	(1,416)	6,646
Increase (decrease) in accounts payable and accrued and other liabilities	5,976	(2,855)	9,804
Net cash provided by operating activities	149,958	137,366	116,385
Cash flows from investing activities:			
Purchase of furniture and equipment	(202)	(258)	(308)
Net investment in real estate property	(323,729)	—	(53,000)
Investment in loan receivable	—	—	(64,931)
Proceeds from sale of loan receivable, net	—	—	49,033
Sale of real estate properties	21,100	139,164	28,620
Proceeds from sale of Kindred common stock	—	20,223	6,950
Proceeds from loan receivable	3,580	205	—
Repayment (issuance) of notes receivable from employees	556	367	(504)
Net cash (used in) provided by investing activities	(298,695)	159,701	(34,140)
Cash flows from financing activities:			
Net change in borrowings under revolving credit facility	39,000	(59,900)	(101,301)
Proceeds from debt	125,000	—	620,300
Purchase of Senior Notes	—	(37,366)	—
Repayment of debt	(67,011)	(7,247)	(18,590)
Repayment of debt through refinancing	—	—	(607,106)
Payment of swap breakage fee	—	(8,575)	(12,837)
Payment of deferred financing costs	(5,350)	(40)	(15,127)
Payment on the United States Settlement	—	(46,647)	(10,755)
Issuance of common stock	64,206	—	93,560
Proceeds from stock option exercises	17,676	22,604	3,595
Cash distribution to stockholders	(103,523)	(80,247)	(50,125)
Net cash provided by (used in) financing activities	69,998	(217,418)	(98,386)
Net (decrease) increase in cash and cash equivalents	(78,739)	79,649	(16,141)
Cash and cash equivalents at beginning of year	82,104	2,455	18,596
Cash and cash equivalents at end of year	\$ 3,365	\$ 82,104	\$ 2,455
Supplemental disclosure of cash flow information:			
Interest paid including swap payments and receipts	\$ 62,530	\$ 70,342	\$ 60,790
Supplemental schedule of non-cash activities:			
Dividend distribution of Kindred common stock	\$ —	\$ —	\$ 17,086
Assets and liabilities assumed from acquisition:			
Real estate investments	\$ 103,603	\$ —	\$ —
Escrow deposits and restricted cash	\$ 9,170	\$ —	\$ —
Other assets acquired	\$ 206	\$ —	\$ —
Debt	\$ 105,627	\$ —	\$ —
Other liabilities	\$ 7,352	\$ —	\$ —

See accompanying notes.

Notes to Consolidated Financial Statements

2004

Note 1—Description of Business

Ventas, Inc. (together with its subsidiaries, except where the context otherwise requires, “we,” “us” or “our”) is a healthcare real estate investment trust (“REIT”) with a geographically diverse portfolio of healthcare and senior housing facilities. As of December 31, 2004, this portfolio consisted of 201 skilled nursing facilities, 40 hospitals, 30 senior housing facilities and 16 other facilities in 39 states. Except with respect to our medical office buildings, we lease these facilities to healthcare operating companies under “triple-net” or “absolute net” leases. Kindred Healthcare, Inc. and its subsidiaries (collectively, “Kindred”) leased 225 of our facilities as of December 31, 2004. We also have real estate loan investments relating to 25 healthcare and senior housing facilities as of December 31, 2004.

We conduct substantially all of our business through a wholly owned operating partnership, Ventas Realty, Limited Partnership (“Ventas Realty”), a wholly owned limited liability company, Ventas Finance I, LLC (“Ventas Finance”), and an operating partnership, ElderTrust Operating Partnership (“ETOP”), in which we own 99.6% of the partnership units.

Note 2—Summary of Significant Accounting Policies

Impact of Recently Issued Accounting Standards

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

As required under SFAS No. 123(R), we expect to adopt the provisions of this accounting standard on July 1, 2005. We expect to apply the modified prospective method of adoption in which compensation cost is recognized beginning on the date we adopt the accounting standard for all share-based payments granted after the adoption date and for all awards granted to employees prior to the adoption date that remain unvested on the adoption date. As permitted by SFAS No. 123(R), we currently account for share-based payments to employees using the intrinsic value method under APB Opinion No. 25 and, as such, generally recognize no compensation cost for employee stock options. The adoption of SFAS No. 123(R) is expected to result in an immaterial increase in expense during the second half of 2005 based on unvested options outstanding as of December 31, 2004 and current compensation plans. While the effect of adoption depends on the level of share-based payments granted in the future and unvested grants on the date we adopt SFAS No. 123(R), the effect of this accounting standard on our prior operating results would approximate the effect of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share. See “Note 9—Stockholders’ Equity and Stock Options.”

In April 2002, FASB issued SFAS No. 145, “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, 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 us 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 we adopted SFAS No. 145. In accordance with SFAS No. 145, our 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 our net income.

Basis of Presentation

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

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.

Reclassifications

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

Segment Reporting

We have one primary reportable segment, which consists of investment in real estate. Our 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.” Substantially all of our leases are triple-net leases, which require the tenants to pay all property-related expenses. With the exception of our medical office buildings, we do not operate our facilities nor do we 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 Statements of Income relate to the ownership of our investment in real estate.

Discontinued Operations

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

Long-Lived Assets

Investments in real estate properties are recorded at cost. We account for acquisitions using the purchase method. The cost of the properties acquired is allocated among tangible land, buildings and equipment and recognized intangibles based upon estimated fair values in accordance with the provisions of SFAS No. 141,

“Business Combinations.” We estimate fair values of the components of assets acquired as of the acquisition date or engage a third-party appraiser as necessary. Recognized intangibles, if any, include the value of acquired lease contracts and related customer relationships.

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

Depreciation for buildings is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 50 years.

Impairment of Long-Lived Assets

We periodically evaluate our long-lived assets, primarily consisting of our investments in real estate, for impairment indicators. If indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying operations. We adjust the net book value of leased properties and other long-lived assets to fair value, if the sum of the expected future cash flow or sales proceeds is less than book value. An impairment loss is recognized at the time we make any such adjustment. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

During the year ended December 31, 2003, we recorded a \$0.8 million impairment on one non-operating skilled nursing facility. During the years ended December 31, 2004 and 2002, we did not recognize an impairment loss.

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. We evaluate the collectibility of the loan receivable based on, among other things, (i) corporate and facility level financial and operational reports, (ii) compliance with the financial covenants set forth in the applicable loan documents and (iii) the financial stability of the applicable borrower and any guarantor.

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.

Escrow Deposits and Restricted Cash

Escrow deposits primarily consist of amounts held by lenders to provide for future real estate tax and insurance expenditures and tenant improvements, earnest money deposits on acquisitions and net proceeds from property sales that were executed as a tax-deferred disposition. Restricted cash represents amounts committed for various utility deposits and security deposits paid to us by third parties.

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 \$7.3 million and \$7.4 million at December 31, 2004 and 2003, respectively.

Derivative Instruments

As discussed in “Note 7—Borrowing Arrangements,” we use derivative instruments to protect against the risk of interest rate movements on future cash flows under our variable rate debt agreements. Derivative instruments are reported at fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives deemed to be eligible for hedge accounting are reported in accumulated other comprehensive income exclusive of ineffectiveness amounts which are reported in interest expense. As of December 31, 2004, a \$9.1 million net unrealized loss on the derivatives is included in accumulated other comprehensive income. Changes in fair value of derivative instruments that are not eligible for hedge accounting are reported in the Consolidated Statements of Income. See “Note 8—Fair Values of Financial Instruments.” Fair values of derivative instruments are verified with a third-party consultant.

Fair Values of Financial Instruments

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

- Cash and cash equivalents: The carrying amount of cash and cash equivalents reported in the Consolidated Balance Sheets approximates fair value because of the short maturity of these instruments.
- Real estate loan receivable: The fair value of loans receivable approximates 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 agreement: The fair value of the interest rate swap agreement is based on rates being offered for similar arrangements which consider forward yield curves and discount rates.

- Revolving credit facilities and CMBS Loan: The fair values of borrowings under variable rate agreements approximate their carrying value.
- Senior Notes payable: The fair values of borrowings under fixed rate agreements are estimated based on open market trading activity provided by a third party.
- Other mortgages: The fair value of other mortgage loans approximates net carrying value, based on rates offered for similar arrangements.

Comprehensive Income

SFAS No. 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.

Revenue Recognition

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

Note 3—Revenues from Properties

Approximately 81.2% of our total revenues for the year ended December 31, 2004 was derived from our master lease agreements with Kindred (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.

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

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 if certain Kindred revenue parameters are met. Assuming such Kindred revenue parameters are met, annual Base Rent under the Kindred Master Leases will be \$198.9 million from May 1, 2005 to April 30, 2006.

On July 1, 2003, we amended the Kindred Master Leases to increase rent on certain facilities leased to Kindred by \$8.6 million per year on an annualized basis (May 1, 2003 through April 30, 2004), for approximately seven years. This amount will escalate 3.5% annually in accordance with 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 on which Kindred emerged from bankruptcy, but with straight-line rents where applicable, for all our leases are as follows:

	Kindred	Other	Total
(in thousands)			
2005	\$ 192,187	\$ 50,155	\$ 242,342
2006	192,187	50,254	242,441
2007	192,187	50,240	242,427
2008	157,144	49,473	206,617
2009	139,622	48,708	188,330
Thereafter	168,714	323,525	492,239
Total	\$1,042,041	\$572,355	\$1,614,396

We have a one-time right under each Kindred Master Lease (the "Reset Right"), exercisable by notice given on or after January 20, 2006 and on or before July 19, 2007, to increase the rent to a then fair market rental rate, commencing as early as July 19, 2006, for a total fee of \$4.6 million payable on a pro-rata basis at the time of exercise under the applicable Kindred Master Lease. The Reset Right generally applies on a lease-by-lease basis, except that the Reset Rights under Master Lease No. 1, Master Lease No. 1A and the Kindred CMBS Master Lease (defined in "Note 7—Borrowing Arrangements—CMBS Transaction") can only be exercised together. If the Reset Right is exercised for any Kindred Master Lease, the annual escalations currently applicable to that lease may be altered or reduced, depending on market conditions at the time. We believe that, based on information currently available to us and current market conditions, if we were entitled to and did exercise the Reset Right, the rent under the Kindred Master Leases would increase, perhaps materially. However, the value of the Reset Right is dependent on a variety of factors and is highly speculative and there can be no assurances regarding the value of the Reset Right.

Note 4—Concentration of Credit Risk

As of December 31, 2004, approximately 67.3% of our properties, based on their original cost, were operated by Kindred and approximately 55.1% of our properties, based on their original cost, were skilled nursing facilities. Our remaining properties consist of hospitals, senior housing facilities and other facilities. Our facilities are located in 39 states, with facilities in one state accounting for more than 10% of total revenues during the years ended December 31, 2004, 2003 and 2002.

Because we lease a substantial portion of our properties to Kindred and Kindred is the primary source of our total revenues, Kindred's financial condition and ability and willingness to satisfy its obligations under the Kindred Master Leases and certain other agreements

with us will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. On September 13, 1999, Kindred filed for protection under the federal bankruptcy laws with the United States Bankruptcy Court for the District of Delaware, and Kindred emerged from bankruptcy on April 20, 2001. Despite Kindred's emergence from bankruptcy, we cannot assure you 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 our business, financial condition, results of operation and liquidity, on our ability to service our indebtedness and on our ability to make distributions to our stockholders as required to maintain our status as a REIT.

Note 5—Dispositions

In 2004, we completed the sale of two facilities for \$21.1 million in net cash proceeds and recognized a net gain on the sale of \$19.4 million. In addition, the tenant paid us lease termination fees approximating \$0.5 million. In 2003, we completed the sale of 27 facilities for \$139.2 million in net cash proceeds and recognized a net gain on the sale of \$51.8 million. In addition, the tenants paid us lease termination fees approximating \$10.1 million. In 2002, we completed the sale of two facilities for \$28.6 million in net cash proceeds and recognized a net gain on the sale of \$23.5 million. The net gains and lease termination fees are included in discontinued operations for the respective years in which the dispositions occurred.

As of December 31, 2003, 2002 and 2001, the net book value of the facilities sold and held for sale during 2004, 2003 and 2002 was \$3.2 million, \$91.7 million and \$5.3 million, respectively.

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, 2004, 2003 and 2002:

For the Years Ended December 31,	2004	2003	2002
(in thousands)			
Revenues:			
Rental income	\$ 1,392	\$11,510	\$15,410
Interest and other income	500	10,116	—
Expenses:			
Interest	390	3,501	6,224
Depreciation	203	2,443	3,879
Loss on impairment of asset held for sale	—	845	—
Income before gain on sale of real estate	1,299	14,837	5,307
Gain on sale of real estate	19,428	51,781	23,450
Discontinued operations	\$20,727	\$66,618	\$28,757

Note 6—Mergers and Acquisitions

During the year ended December 31, 2004, we completed the acquisitions described below. The primary reason for these acquisitions was to invest in healthcare and senior housing properties with an expected yield on investment, as well as to diversify our properties and revenue base and reduce our dependence on Kindred for rental revenue.

ElderTrust Merger

On February 5, 2004, we acquired all of the outstanding common shares of ElderTrust, in an all-cash transaction valued at \$184.0 million. At the close of the ElderTrust transaction, ElderTrust had approximately \$33.5 million in unrestricted and restricted cash. After transaction costs, the net investment of the ElderTrust transaction was approximately \$160.0 million. The ElderTrust transaction added 18 facilities to our portfolio. The ElderTrust properties are leased to various operators under leases having remaining terms primarily ranging from four to 11 years and initially providing for aggregate, annual cash base rent of approximately \$16.4 million, subject to escalation as provided in the leases. Concurrent with the consummation of the ElderTrust transaction, we also purchased all of the limited partnership units in ETOP, then held by third parties at \$12.50 per unit, other than 31,455 Class C Units in ETOP (which remain outstanding). ETOP owns directly or indirectly all of the ElderTrust properties. Our ownership of the ElderTrust properties is subject to approximately \$77.7 million of property-level debt as of December 31, 2004.

Brookdale Transactions

During the period from January 1, 2004 through May 12, 2004, we acquired 15 independent living or assisted living facilities for an aggregate purchase price of \$157.4 million. These facilities are leased by us to affiliates of Brookdale Living Communities, Inc. ("Brookdale") pursuant to a master lease containing 10 properties and five separate single facility leases, all of which are triple-net leases guaranteed by Brookdale having an initial term of 15 years and initially providing for aggregate, annual cash base rent of approximately \$14.5 million, subject to annual escalation of the greater of (i) 2% or (ii) 75% of the annual increase in the consumer price index.

Other 2004 Acquisitions

During 2004, we acquired four senior housing facilities and two skilled nursing facilities, for an aggregate purchase price of \$93.3 million. The facilities are leased under triple-net leases, having initial terms of 10 to 15 years and providing aggregate, annual cash base rent of approximately \$8.9 million, subject to escalation as provided in the leases. We also acquired five medical office buildings, for an aggregate purchase price of \$15.9 million. These buildings are leased to various tenants under leases having remaining terms ranging from four to six years and initially providing for aggregate, annual cash base rent of approximately \$1.9 million, subject to escalation as provided in the leases. We have engaged managers to manage the operations at the medical office buildings.

Estimated Fair Value

The 2004 acquisitions were accounted for under the purchase method. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Such estimates are subject to refinement as additional valuation information is received. We are in the process of computing fair values; thus, the allocation of the purchase price is subject to refinement.

	ElderTrust Merger	Brookdale Transactions	Other 2004 Acquisitions	Total
(in millions)				
Land	\$ 17	\$ 14	\$ 12	\$ 43
Buildings and improvements	144	144	96	384
Cash and cash equivalents	28	—	—	28
Other assets	5	2	3	10
Total assets acquired	194	160	111	465
Notes payable and other debt	83	20	3	106
Other liabilities	2	3	2	7
Total liabilities acquired	85	23	5	113
Net assets acquired	109	137	106	352
Less cash acquired	(28)	—	—	(28)
Net cash paid	\$ 81	\$137	\$106	\$324

The buildings are being depreciated over their estimated useful lives, which were determined to be 30 years for those acquired in the ElderTrust merger and 35 years for all other 2004 acquisitions.

Unaudited Pro Forma

The following table illustrates the effect on net income and earnings per share as if we had consummated our 2004 acquisitions and merger and the 2004 equity offering as of the beginning of each of the three years ended December 31, 2004:

For the Years Ended December 31,	2004	2003	2002
(in thousands, except per share amounts)			
Revenues	\$249,372	\$239,380	\$221,656
Expenses	143,922	135,946	175,647
Net income from continuing operations	105,450	112,473	53,287
Net income	126,177	179,091	82,044
Earnings per common share:			
Basic:			
Net income from continuing operations	\$ 1.26	\$ 1.38	\$ 0.75
Net income	\$ 1.51	\$ 2.20	\$ 1.15
Diluted:			
Net income from continuing operations	\$ 1.25	\$ 1.37	\$ 0.74
Net income	\$ 1.49	\$ 2.18	\$ 1.13
Shares used in computing earnings per common share:			
Basic	83,824	81,340	71,336
Diluted	84,685	82,094	72,290

Transactions with Trans Healthcare, Inc.

On November 4, 2002, we, through Ventas Realty completed a \$120.0 million transaction with Trans Healthcare, Inc. ("THI"), a privately owned long-term care and hospital company. The transaction was structured as a \$53.0 million sale-leaseback transaction and a \$67.0 million loan, comprised of a first mortgage loan and a mezzanine loan. Following a sale of the \$50 million THI first mortgage loan in December 2002, our investment in THI was \$70.0 million.

As part of the THI sale leaseback, Ventas Realty purchased five properties and is leasing them back to THI under a triple-net 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 10 years, provides for initial 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) 3% or (ii) 50% of the consumer price index.

THI remains current on all of its payment obligations to us, although we have entered into several forbearance agreements with THI regarding certain non-financial terms of its agreements with us. As of February 15, 2005, the balance of the mezzanine loan was \$12.4 million. The THI mezzanine loan bears interest, inclusive of upfront fees, at 18% per annum and is secured by equity pledges in entities that own and operate the 17 healthcare facilities that also collateralize the THI first mortgage loan, plus liens on four other healthcare properties, and interests in three additional properties and a physical therapy business.

Note 7—Borrowing Arrangements

The following is a summary of our long-term debt and certain interest rate and maturity information as of December 31, 2004 and 2003:

As of December 31,	2004	2003
(in thousands)		
Revolving credit facility	\$ 39,000	\$ —
Tranche B Term Loan	—	59,100
8.75% Senior Notes due 2009	174,217	174,217
9.00% Senior Notes due 2012	191,821	191,821
6.625% Senior Notes due 2014	125,000	—
CMBS Loan	212,612	215,424
Other mortgage loans	100,528	—
	\$843,178	\$640,562

CMBS Loan

On December 12, 2001, we 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 (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 \$206.4 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 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 us.

Ventas Finance is required to maintain or cause to be maintained various reserve accounts under the CMBS Loan Agreement including a debt service reserve, an imposition and insurance reserve and a replacement reserve account. 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, 2004 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. After application to monthly principal and interest payments and the reserve accounts, the central account is swept on a daily basis to Ventas Finance. However, during the continuance of an event of default or a Cash Flow Sweep Event, as defined in the CMBS Loan Agreement, 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.

Revolving Credit Facility

On September 8, 2004, we entered into a three-year revolving credit facility totaling \$300 million which replaced our previous revolving credit facility. Subject to certain conditions, we may extend the revolving credit facility for one year and increase our borrowing capacity to an amount not to exceed \$450.0 million. Generally, borrowings outstanding under the revolving credit facility bear interest at a fluctuating LIBOR-based rate per annum plus an applicable percentage ranging from 1.05% to 1.75% depending on our consolidated leverage ratio. The applicable percentage was 1.25% at December 31, 2004. The previous revolving credit facility included borrowings bearing interest at a fluctuating LIBOR-based rate and

the Tranche B Term Loan. The Tranche B Term Loan bore interest at LIBOR plus 2.50% and was due April 2007. Ventas Realty is the borrower and we are guarantors under the revolving credit facility.

Obligations under the revolving credit facility 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. Currently, 44 real properties owned or leased by Ventas Realty are mortgaged to secure the revolving credit facility. As of December 31, 2004, the net book value of these properties was \$113.5 million. As of December 31, 2004, the borrowing base under the revolving credit facility was \$290.8 million, the aggregate principal balance of outstanding obligations (excluding outstanding letters of credit of \$0.5 million) was \$39.0 million and the remaining availability was \$251.3 million.

We incurred losses on extinguishment of debt in the amounts of \$1.4 million and \$6.9 million for the years ended December 31, 2004 and 2002, respectively, representing the write-off of unamortized deferred financing costs related to previous revolving credit facilities and early extinguishment premium on the 2009 Senior Notes and 2012 Senior Notes (as each term is defined below).

The revolving credit facility 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 us after April 17, 2002 cannot exceed 95% of our aggregate cumulative funds from operations ("FFO")); (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 revolving credit facility contains various potential events of default and is, among other things, cross-defaulted with certain other indebtedness and obligations of Ventas Realty.

Senior Notes

On April 17, 2002, Ventas Realty and Ventas Capital Corporation, a wholly owned subsidiary of Ventas Realty (collectively, the "Issuers"), completed the offering of 8-3/4% 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"). On October 15, 2004, the Issuers completed the offering of 6-5/8% Senior Notes due 2014 in the aggregate principal amount of \$125.0 million (the "2014 Senior Notes" and together with the 2009 Senior Notes and the 2012 Senior Notes, the "Senior Notes"). The Senior Notes were issued under separate indentures, and mature on May 1, 2009, May 1, 2012, and October 15, 2014, respectively.

The Senior Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis by us and by certain of our current and future subsidiaries as described in the indentures (collectively, the "Guarantors"). The Senior Notes are part of our general unsecured obligations, rank equal in right of payment with all of our existing and future senior obligations and rank senior to all of our existing and future subordinated indebtedness. However, the Senior Notes are effectively subordinated to all borrowings under our revolving credit facility with respect to the assets securing obligations under the facility. In addition, the Senior Notes are structurally subordinated to the CMBS Loan.

The Issuers may redeem the 2009 Senior Notes and the 2012 Senior Notes in whole at any time, or in part from time to time, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date and a make-whole premium described in the applicable indenture. The Issuers may redeem the 2014 Senior Notes in whole at any time, or in part from time to time, (i) prior to October 15, 2009 at a redemption price equal to 100% of the principal amount thereof plus a make-whole premium described in the applicable indenture and (ii) on or after October 15, 2009 at varying redemption prices set forth in the applicable indenture, plus, in each case, accrued and unpaid interest thereon to the redemption date. In addition, the Issuers may redeem up to 35% of the 2014 Senior Notes prior to October 15, 2007 with the net cash proceeds from certain equity offerings at a redemption price equal to 106.625% of the principal amount thereof plus accrued and unpaid interest thereon to the redemption date.

If we experience certain kinds of changes of control, 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 of the Senior Notes, 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 at Ba3 or higher and BB- or higher on the Senior Notes and certain other conditions are met, this repurchase obligation will not apply.

The indentures governing the Senior Notes contain covenants that limit our ability and the ability of certain of our subsidiaries (collectively, the "Restricted Group") to, among other things: (i) incur debt; (ii) incur secured debt; (iii) make certain dividends, distributions and investments (the sum of all restricted payments made by us cannot exceed 95% of our aggregate cumulative FFO from April 2002); (iv) enter into certain transactions, including transactions with affiliates; (v) subject our subsidiaries to restrictions on dividends or other payments to us; (vi) merge, consolidate or transfer all or substantially all of the Restricted Group's assets; and (vii) sell assets. The Restricted Group is also required to maintain total unencumbered assets of at least 150% of the Restricted Group's unsecured debt.

On December 31, 2002, we purchased \$0.8 million principal amount of 2009 Senior Notes and \$33.2 million principal amount of 2012 Senior Notes in open market transactions. The total purchase price aggregated \$37.4 million. As a result of these purchases, we reported a loss on extinguishment of debt of \$4.2 million in the fourth quarter ended December 31, 2002.

Other Mortgages

We have outstanding 16 other mortgage loans that we assumed in connection with the acquisition of properties or the ElderTrust merger. Outstanding principal balances on these loans ranges from \$0.2 million to \$13.0 million as of December 31, 2004. The loans bear interest at fixed rates ranging 6.2% to 8.5%, except with respect to one loan with an outstanding principal balance of \$8.9 million, which bears interest at the lender's variable rate, which was 2.0% as of December 31, 2004. The fixed rate debt bears interest at a weighted average rate of 7.5% as of December 31, 2004. The loans have a weighted average maturity of 14 years as of December 31, 2004.

Scheduled Maturities of Borrowing Arrangements

As of December 31, 2004, our indebtedness has the following maturities (in thousands):

2005	\$ 4,793
2006	215,752
2007	40,884
2008	2,019
2009	206,440
Thereafter	373,290
	<hr/> \$843,178 <hr/>

Derivatives and Hedging

In the normal course of business, we are exposed to the effect of interest rate changes. We limit 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. We currently have an interest rate swap to manage interest rate risk (the "2003-2008 Swap"). We prohibit the use of derivative instruments for trading or speculative purposes. Further, we have 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, we do not anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

In 1998, we entered into an \$800.0 million notional amount interest rate swap (the "1998 Swap") that was treated as a cash flow hedge. In 1999, we shortened the maturity of the 1998 Swap in exchange for a payment to us of \$21.6 million, which was recorded as other comprehensive income. We began amortizing this deferred gain out of accumulated other comprehensive income in July 2003, the amended expiration date of the 1998 Swap, and will continue such amortization through December 2007, the original expiration date of the 1998 Swap. As a result of debt refinancing in 2002, we reduced the notional amount of the 1998 Swap in exchange for a payment to the counterparty from us of \$12.8 million. This partial swap breakage cost and \$7.4 million of the deferred gain were recognized as a net expense of \$5.4 million in the Consolidated Statement of Income for the year ended December 31, 2002.

In 2001, we entered into 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, under which we pay a fixed rate at 5.385% and receive LIBOR from the counterparty to the agreement. The 2003-2008 Swap is treated as a cash flow hedge. On December 11, 2003, we received unanticipated cash proceeds from the sale of various facilities to Kindred, thereby reducing our expected future variable rate debt balances. Accordingly, we entered into an agreement with the counterparty to break \$120.0 million of the notional amount in exchange for a payment from us of approximately \$8.6 million. This partial swap breakage cost and \$3.4 million of the deferred gain were recognized as a net expense of \$5.2 million in the Consolidated Statement of Income for the year ended December 31, 2003.

Amortization of the deferred gain in accumulated other comprehensive income was \$2.3 million and \$1.5 million for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004, the remaining deferred gain in accumulated other comprehensive income was \$6.9 million.

Unrealized gains and losses on the 2003-2008 Swap are recorded as other comprehensive income. The amounts reclassified into interest expense due to the swaps for the years ended December 31, 2004, 2003 and 2002 were \$13.3 million, \$19.2 million and \$24.7 million, respectively. Assuming no changes in interest rates, we estimate that approximately \$7.7 million of the current balance recorded in accumulated other comprehensive income will be recognized as interest expense within the next twelve months consistent with historical reporting. For the years ended December 31, 2004, 2003 and 2002, \$0.5 million, \$0.3 million and \$1.9 million, respectively, of the unrealized loss on the swaps previously reported in accumulated other comprehensive income was reclassified to interest expense to reflect the excess of the notional amount of the swaps over the anticipated variable rate debt balances in the future.

There are no collateral requirements under the 2003-2008 Swap. We are exposed to credit loss in the event of the non-performance by the counterparty to an interest rate swap agreement. However, we do not anticipate non-performance by the counterparty. 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

At December 31, 2004, the 2003-2008 Swap was reported at its fair value of \$16.5 million in liabilities in the Consolidated Balance Sheet. The offsetting entry is reported as a deferred loss in accumulated other comprehensive income.

Note 8—Fair Values of Financial Instruments

As of December 31, 2004 and 2003, the carrying amounts and fair values of our financial instruments were as follows:

As of December 31,	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Cash and cash equivalents	\$ 3,365	\$ 3,365	\$ 82,104	\$ 82,104
Real estate loan receivable	13,031	13,031	16,455	16,455
Notes receivable from employees	3,216	3,147	3,772	3,817
Interest rate swap agreement	(16,550)	(16,550)	(27,868)	(27,868)
Revolving credit facilities	(39,000)	(39,000)	(59,100)	(59,100)
Senior Notes payable	(491,038)	(544,700)	(366,038)	(405,563)
CMBS Loan	(212,612)	(212,612)	(215,424)	(215,424)
Mortgages	(100,528)	(100,528)	—	—

Fair value estimates are subjective in nature and depend 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 we would realize in a current market exchange.

Note 9—Stockholders' Equity and Stock Options

We have five plans under which options to purchase common stock have been, or may be, granted to officers, employees and nonemployee directors, one plan under which executive officers

may receive common stock in lieu of compensation and two plans under which certain directors may receive common stock 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 2004 Stock Plan for Directors; (5) the TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan; (6) the Executive Deferred Stock Compensation Plan; (7) the Common Stock Purchase Plan for Directors (the "Directors Stock Purchase Plan"); and (8) the Nonemployee Director Deferred Stock Compensation Plan.

Under the Plans (other than the Executive Deferred Stock Compensation Plan, Directors Stock Purchase Plan and Nonemployee Director Deferred Stock Compensation Plan), options are exercisable at the market price on the date of grant, expire ten years from the date of grant, and vest over varying periods ranging from one to four years. We have also granted options and restricted stock to certain officers, employees and nonemployee 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 on the date of grant and expire ten years from the date of grant. As of December 31, 2004, options for 1,579,769 shares had been granted to eligible participants and remained outstanding (including options granted prior to our spin-off of Kindred in 1998 and held by Kindred employees) under the Plans. As of December 31, 2004, options for 38,000 shares had been granted outside of the Plans to certain employees and nonemployee directors and remained outstanding. We granted 68,271, 157,934, and 200,634 shares of restricted stock for the years ended December 31, 2004, 2003 and 2002, 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 \$1.2 million in 2004, \$1.3 million in 2003 and \$1.9 million in 2002.

New option and restricted stock grants and stock issuances may only be made under the 2000 Incentive Compensation Plan (Employee Plan), the Executive Deferred Stock Compensation Plan, the 2004 Stock Plan for Directors, the Directors Stock Purchase Plan and the Nonemployee Director Deferred Stock Compensation Plan. Under the terms of the 2000 Incentive Compensation Plan (Employee Plan), 5,620,000 shares are reserved for grants to be issued to employees. Under the terms of the Executive Deferred Stock Compensation Plan, 500,000 shares are reserved for issuance

to our executive officers in lieu of the payment of all or a portion of their salary, at their option. Under the terms of the 2004 Stock Plan for Directors, 200,000 shares are reserved for grants or issuance to the chairman of the board and nonemployee 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. Under the terms of the Nonemployee Director Deferred Stock Compensation Plan, 500,000 shares are reserved for issuance to nonemployee directors in lieu of the payment of all or a portion of their retainer and meeting fees, at their option. As of December 31, 2004, the number of shares available for future grants or issuance under the 2000 Incentive

Compensation Plan (Employee Plan), the Executive Deferred Stock Compensation Plan, the 2004 Stock Plan for Directors, the Directors Stock Purchase Plan and the Nonemployee Director Deferred Stock Compensation Plan were 1,243,970, 500,000, 217,250, 164,278 and 497,486, respectively. No additional grants are permitted under the 1987 Incentive Compensation Program, the 1987 Stock Option Plan for Non-Employee Directors or 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, 2004, we had reserved 211,244 shares for issuance under these Plans.

The following is a summary of stock option activity in 2004, 2003 and 2002:

A. 2004 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	2,565,618	\$ 3.3125 – \$24.4701	\$ 13.0621
Options granted	336,423	21.6000 – 25.1700	23.3192
Options exercised	(1,229,705)	3.6250 – 24.4701	14.3216
Options canceled	(54,567)	3.6250 – 23.0000	14.4420
Outstanding at end of year	1,617,769	3.3125 – 25.1700	14.1778
Exercisable at end of year	1,282,761	\$ 3.3125 – \$23.9037	\$ 12.7607

B. 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

C. 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

A summary of stock options outstanding at December 31, 2004 follows:

Range of Exercise Prices	Outstanding as of December 31, 2004	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as of December 31, 2004	Weighted Average Exercise Price
\$ 3.3125 to \$ 8.0000	294,415	6.0	\$ 6.5744	294,415	\$ 6.5744
\$ 8.0001 to \$13.7400	706,163	6.9	11.9161	600,012	11.9814
\$13.7401 to \$18.6200	200,883	2.3	16.1829	200,665	16.1840
\$18.6201 to \$25.1700	416,308	7.6	22.4237	187,669	21.2971
	1,617,769	6.3	\$14.1778	1,282,761	\$12.7607

In 1995, FASB issued 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, 2004, 2003 and 2002 was approximately \$824,700, \$235,500, and \$337,100, respectively.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to all stock-based employee compensation.

The Black-Scholes option pricing 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 our 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 our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

For the Years Ended December 31, (in thousands)	2004	2003	2002
Net income, as reported	\$120,900	\$162,753	\$65,706
Add: Stock-based employee compensation expense included in reported net income	1,207	1,320	1,853
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,110)	(1,631)	(2,422)
Pro forma net income	\$119,997	\$162,442	\$65,137
Earnings per share:			
Basic – as reported	\$ 1.45	\$ 2.05	\$ 0.95
Basic – pro forma	\$ 1.44	\$ 2.05	\$ 0.94
Diluted – as reported	\$ 1.43	\$ 2.03	\$ 0.93
Diluted – pro forma	\$ 1.42	\$ 2.03	\$ 0.93

In determining the estimated fair value of our stock options as of the date of grant, we used the Black-Scholes option pricing model with the following assumptions:

	2004	2003	2002
Risk-free interest rate	4.5%	4.0%	4.1%
Dividend yield	7.4%	9.0%	9.0%
Volatility factors of the expected market price for our common stock	17.5%	25.4%	27.6%
Weighted average expected life of options	10 years	9 years	9 years

Note 10—Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code commencing with the year that ended December 31, 1999. We intend to continue to operate in such a manner as to enable us to qualify as a REIT. Our actual qualification and taxation as a REIT depends upon our ability to meet, on a continuing basis, distribution levels, stock ownership, and the various qualification tests. During the years ended December 31, 2004, 2003 and 2002, our tax treatment of distributions was as follows:

	2004	2003	2002
Tax treatment of distributions:			
Ordinary income	\$ 1.1164	\$0.8025	\$0.9500
Long-term capital gain	0.1241	—	—
Unrecaptured section 1250 gain	0.0020	—	—
Distribution reported for 1099-DIV purposes	1.2425	0.8025	0.9500
Add: Dividend declared in current year and taxable in following year	0.3250	0.2675	—
Less: Dividend declared in prior year and taxable in current year	(0.2675)	—	—
Distributions declared per common share outstanding	\$ 1.3000	\$1.0700	\$0.9500

No net provision for income taxes has been recorded in the Consolidated Financial Statements for the years ended December 31, 2004 and 2003 due to our belief that we qualified as a REIT and the distribution of more than 100% of our 2004 and 2003 taxable income as a dividend. In the third quarter of 2002, we filed our 2001 federal tax return on which we elected to apply certain 2002 dividend payments in excess of our 2002 taxable net income. As a result, we recorded a \$2.2 million tax benefit for 2002.

The 2002 benefit for income taxes consists of the following (in thousands):

	2002
Current tax expense:	
Federal	\$(1,952)
State	(248)
	<u><u>\$(2,200)</u></u>

We believe we have met the annual distribution requirement by payment of at least 90% of our estimated taxable income for 2004, 2003 and 2002.

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 our assets and liabilities for federal income tax purposes was \$91.9 and \$119.2 million more than the book bases of those assets and liabilities for financial reporting for the years ended December 31, 2004 and 2003, respectively.

We made no income tax payments for the years ended December 31, 2004, 2003 and 2002.

As a former C corporation for federal income tax purposes, we potentially remain 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 future gains could be offset by available net operating losses. The deferred income tax liability of \$30.4 million at December 31, 2004 and 2003 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.

In connection with the Kindred plan of reorganization, we entered into an agreement with Kindred to deposit into a third-party escrow account certain income tax refunds received by either Kindred or us. This agreement also amended and supplemented the agreement under which Kindred has indemnified us for certain tax liabilities relating to May 1, 1998. Under the terms of this agreement any excess Escrow Funds remaining 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 us. At December 31, 2004, approximately \$0.2 million of disputed Subject Refunds and accrued interest, representing 50% of the Escrow Funds, is recognized in restricted cash and other liabilities on our Consolidated Balance Sheet.

On April 1, 2003, the Internal Revenue Service ("IRS") notified us that it had completed its review of our federal income tax returns for the 1997 and 1998 tax periods. The Joint Committee on Taxation affirmed the IRS Revenue Agent's report concluding that we (1) do not owe any additional taxes for those periods, (2) are entitled to retain the approximately \$26.0 million federal tax refund we received in 2000 for those periods (the "Original Federal Refund Amount"), and (3) are 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, we will retain substantially all of our favorable tax attributes such as net operating loss carryforwards and capital loss carryforwards.

As a result of the Joint Committee on Taxation's findings, on April 3, 2003, we 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 and September 2004 Ventas and Kindred agreed to disburse \$1.0 million and \$0.8 million, respectively, to each company from the Tax Refund Escrow. As of December 31, 2004, our share of the amounts currently held in the Tax Refund Escrow was approximately \$0.2 million.

In 2003, we reported an increase of approximately \$20.2 million to our operating results, reflecting the reversal of a previously recorded contingent liability. A portion of this contingent liability included our share of the Tax Refund Escrow Funds reported in Other Liabilities—Disputed Federal, State and Local Tax Refunds on the 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 our 1997 and 1998 tax periods as well as other federal, state, local, franchise and miscellaneous tax items. As in certain prior periods, the IRS is currently reviewing our federal income tax return for the year ended December 31, 2001. As of December 31, 2004 and 2003, the total contingent liability was \$1.8 million and \$1.2 million, respectively.

We have a net operating loss ("NOL") carryforward of \$10.2 million at December 31, 2004. This amount 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. We will be entitled to utilize NOLs and tax credit carryforwards only to the extent that REIT taxable income exceeds our deduction for dividends paid. The NOL carryforwards begin to 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 net operating loss carryforwards as of

December 31, 2004 and 2003. The IRS may challenge our entitlement to these tax attributes during its review of the tax returns for the previous tax years. We believe we are entitled to these tax attributes, but there can be no assurance as to the outcome of these matters.

Note 11—Commitments and Contingencies

Agreement of Indemnity—Third-Party Leases

In connection with our spin-off of Kindred in 1998 (the "1998 Spin Off"), we assigned our 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 agreed to indemnify and hold us harmless from and against all claims against us arising out of the Third-Party Leases assigned by us 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 we remain liable under the Third-Party Leases. We believe we may have valid legal defenses to any such claim. However, there can be no assurance we 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 us, we 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 10 years. The Third-Party Leases relating to ground leases have remaining terms from one to 80 years. Under Kindred's plan of reorganization, 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 Kindred's plan of reorganization, Kindred has agreed not to renew or extend any Third-Party Lease unless it first obtains a release of us from liability under such Third-Party Lease.

The total aggregate remaining minimum rental payments under the Third-Party Leases are as follows:

	Skilled Nursing Facilities	Hospitals	Land	Subleased Third-Party Leases	Other	Total
(in thousands)						
2005	\$614	\$1,925	\$ 466	\$1,117	\$265	\$ 4,387
2006	235	1,025	468	1,117	88	2,933
2007	—	1,025	461	1,117	—	2,603
2008	—	1,025	399	1,117	—	2,541
2009	—	—	392	1,117	—	1,509
Thereafter	—	—	10,496	1,489	—	11,985
	\$849	\$5,000	\$12,682	\$7,074	\$353	\$25,958

Agreement of Indemnity—Third-Party Guarantees

In connection with the 1998 Spin Off, we assigned our 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 agreed to indemnify and hold us harmless from and against all claims against us arising out of the Third-Party Guarantees. Under Kindred’s plan of reorganization, 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 we may be liable for the payment and performance of the obligations under any such agreement. However, we believe we may have valid legal defenses to any such claim under a Third-Party Guarantee. As of December 31, 2004, we believe that we had no material exposure under 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 us 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 us based on these healthcare operations. In addition, at the time of the 1998 Spin Off, Kindred agreed to assume the defense, on our behalf, 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 our behalf, any claims asserted after the 1998 Spin Off which arise out of the ownership and operation of the healthcare operations. Under Kindred’s plan of reorganization, 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 we 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 April 20, 2001, we received 1,498,500 shares of Kindred common stock, representing not more than 9.99% of the issued and outstanding common stock of Kindred as of that 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 our lack of significant influence over Kindred, we determined the value of the Kindred common stock to be \$18.2 million on the date of issuance. The Kindred common stock was issued to us as additional future rent in consideration of our agreement to charge the base rent as provided in the Kindred Master Leases.

During the year ended December 31, 2002, we 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, we disposed of the remaining 920,814 shares of Kindred common stock and recognized a gain of \$9.0 million. As of December 31, 2004 and 2003, we did not own any Kindred common stock.

Settlement of United States Claims

Kindred and we were the subject of investigations by the United States Department of Justice regarding our 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.” Kindred’s plan of reorganization 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, we were required to pay \$103.6 million to the United States, of which \$34.0 million was paid on April 20, 2001. 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. We also paid approximately \$0.4 million to legal counsel for the relators in the *qui tam* actions. In the fourth quarter of 2000, we 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, we incurred a \$2.7 million non-cash expense relating to the early repayment of the United States Settlement that is reflected as interest on United States Settlement on our 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 us in final repayment of the United States Settlement and the amount reflected on our Consolidated Balance Sheet on the date of final repayment. There was no prepayment penalty or other cash expense 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:

For the Years Ended December 31,	2004	2003	2002
(in thousands, except per share amounts)			
Numerator for basic and diluted earnings per share:			
Income before discontinued operations	\$100,173	\$ 96,135	\$36,949
Discontinued operations	20,727	66,618	28,757
Net income	\$120,900	\$162,753	\$65,706
Denominator:			
Denominator for basic earnings per share—weighted average shares	83,491	79,340	69,336
Effect of dilutive securities:			
Stock options	825	715	883
Time vesting restricted stock awards	36	39	71
Dilutive potential common stock	861	754	954
Denominator for diluted earnings per share—adjusted weighted average	84,352	80,094	70,290
Basic earnings per share			
Income before discontinued operations	\$ 1.20	\$ 1.21	\$ 0.53
Discontinued operations	0.25	0.84	0.42
Net income	\$ 1.45	\$ 2.05	\$ 0.95
Diluted earnings per share			
Income before discontinued operations	\$ 1.19	\$ 1.20	\$ 0.53
Discontinued operations	0.24	0.83	0.40
Net income	\$ 1.43	\$ 2.03	\$ 0.93

There were no anti-dilutive options outstanding for the year ended December 31, 2004. Options to purchase 1.1 million shares of common stock at exercise prices 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 at exercise prices ranging from \$13.13 to \$26.05 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.

Note 13—Litigation**Legal Proceedings Presently Defended and Indemnified by Kindred Under the Spin Agreements**

The following litigation and other matters arose from our 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 our behalf, of any claims that (i) 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 (ii) 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 us for any fees, costs, expenses and liabilities arising out of such operations (the "Indemnification"). Kindred is presently defending us in the matters described below, among others. Under Kindred's plan of reorganization, Kindred assumed and agreed to abide by the Indemnification and to defend us in these and other matters as required under the Spin Agreements. However,

there can be no assurance that Kindred will continue to defend us 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 us by Kindred. There can be no assurance that Kindred has included in its public filings and provided us complete and accurate information in all instances.

A stockholder derivative suit entitled *Thomas G. White on behalf of 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 our company by engaging in breaches of fiduciary duty, insider trading, fraud and securities fraud and damaging our reputation. The suit seeks unspecified damages, interest, punitive damages, reasonable attorneys' fees, other costs, and any extraordinary equitable and/or injunctive relief permitted by law or equity to assure the plaintiff has an effective remedy. We believe 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 us, 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 declining to dismiss the suit. In September 2003, Kindred filed a motion to dismiss this action as to all defendants, including us, based on plaintiff's failure to make demand for remedy upon the appropriate Board of Directors. On March 18, 2004, the presiding judge recused himself and this action was re-assigned. In July 2004, the Court ruled that it would consider the motion to dismiss this action based upon plaintiffs' failure to make

demand for remedy upon the appropriate Board of Directors. The briefing is now complete on this motion to dismiss but the Court has not yet ruled. Kindred has indicated that it intends to continue to defend this action vigorously on our behalf. We are unable at this time to estimate the possible loss or range of loss for this action and, therefore, no provision for liability, if any, resulting from this litigation has been made in the Consolidated Financial Statements as of December 31, 2004.

Kindred is a party to certain legal actions and regulatory investigations arising in the normal course of its business. We are a party to certain legal actions and regulatory investigations that arise from the normal course of our prior healthcare operations, which legal actions and regulatory investigations are being defended by Kindred under the Indemnification. Neither we nor Kindred are 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 our 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 us.

Other Litigation

We are 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 us under theories of breach of contract, tortious interference with contract and abuse of process. We dispute the material allegations contained in Black Diamond's counterclaims and we intend to continue to pursue our claims and defend the counterclaims vigorously. We are unable at this time to estimate the possible loss or range of loss for the counterclaims in this action, and therefore, no provision for liability, if any, resulting from this litigation has been made in our Consolidated Financial Statements as of December 31, 2004.

We are the plaintiff in an action entitled *Ventas, Inc. v. Sullivan & Cromwell*, Case No. 02-5232, filed by us on June 27, 2002 in the Superior Court of the District of Columbia. The complaint asserts claims of legal malpractice and breach of fiduciary duty by Sullivan & Cromwell in connection with its legal representation of us in the 1998 Spin Off. The Court set a January 23, 2006 trial date for this action. Although we intend to pursue our claims in this action vigorously, there can be no assurances that we will prevail on any of the claims in this action, or, if we do prevail on one or more of the claims, as to the amount of the recovery that may be awarded to us for such claims.

We are party to various other lawsuits arising in the normal course of our 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 us. If management's assessment of our liability with respect to these actions is incorrect, such lawsuits could have a material adverse effect on us.

No provision for liability, if any, resulting from the aforementioned litigation has been made in our Consolidated Financial Statements as of December 31, 2004.

Note 14—Capital Stock

The authorized capital stock at December 31, 2004, 2003 and 2002 consisted of 180,000,000 shares of common stock, par value of \$0.25 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, we filed a universal shelf registration statement on Form S-3 with the 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. As of December 31, 2004, \$599.1 million of securities remained available for offering under the shelf registration statement.

On March 15, 2004, we completed the sale of 2,000,000 shares of our common stock in an underwritten public offering under our universal shelf registration statement. We received \$51.1 million in net proceeds from the sale, which we used to repay indebtedness under the revolving credit facility and for general corporate purposes, including the funding of acquisitions.

During the fourth quarter ended December 31, 2002, we completed the sale of 9,000,000 shares of our common stock with Tenet Healthcare Corporation ("Tenet"). In the offering, Tenet sold all 8,301,067 shares of our common stock that it held. Our net proceeds from the sale were \$93.6 million, which we used to repay outstanding indebtedness including the indebtedness incurred to invest in transactions with THI.

Excess Share Provision

In order to preserve our ability to maintain REIT status, our Certificate of Incorporation provides that if a person acquires beneficial ownership of greater than 9% of the outstanding stock, the shares that are beneficially owned in excess of such 9% limit are deemed to be excess shares. These shares are automatically deemed transferred to a trust for the benefit of a charitable institution or other qualifying organization selected by our Board of Directors. The trust is entitled to all dividends with respect to the shares and the trustee may exercise all voting power over the shares.

We have 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 we buy the shares. We have the right to defer payment of the purchase price for the excess shares for up to five years. If we do 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 Board of Directors is empowered to grant waivers from the excess share provisions of our Certificate of Incorporation. On June 24, 2003 we granted a waiver (the "C&S Waiver") from the 9% ownership limitation provisions of Article XII of our 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 our common stock.

Distribution Reinvestment and Stock Purchase Plan

We have a Distribution Reinvestment and Stock Purchase Plan. Under the plan's terms, existing stockholders may purchase shares of common stock by reinvesting all or a portion of the cash distribution on their shares of our common stock. In addition, existing stockholders, as well as new investors, may purchase shares of common stock by making optional cash payments. Beginning in March 2005, we are offering a 1% discount on the purchase price of our stock to shareholders who reinvest their dividends and/or make optional cash purchases of common stock through the plan. In 2004, we offered a 2% discount on the purchase price of our stock to shareholders that participated in the plan. The availability of a market discount is at our discretion. 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, we may lower or eliminate the discount without prior notice. We may also, without prior notice, change our determination as to whether common shares will be purchased by the plan administrator directly from us or in the open market.

Note 15—Related Party Transactions

At December 31, 2004 and 2003, we had receivables of approximately \$3.2 million and \$3.8 million, respectively, due from certain current and former executive officers. The loans include interest provisions (with a 4.9% 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 a period of 10 years. Interest on a note relating to the 1998 Spin Off in the principal amount of \$1.5 million at December 31, 2004 (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 Ventas on January 30, 2003. In the event of a change in control, as defined in our 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 (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, we 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 Res-Care, Inc. ("Res-Care") of which a director of Ventas is the Chairman, President and Chief Executive Officer. We lease the Tangram facilities to Tangram pursuant to a master lease agreement which is guaranteed by Res-Care. For the years ended December 31, 2004, 2003 and 2002, Tangram has paid us approximately \$834,000, \$816,000 and \$799,000 respectively, in base rent payments.

Note 16—Quarterly Financial Information (Unaudited)

Summarized unaudited consolidated quarterly information for the years ended December 31, 2004 and 2003 is provided below.

For the Year Ended December 31, 2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share amounts)				
Revenues ⁽¹⁾	\$53,943	\$59,425	\$61,262	\$62,226
Income before discontinued operations ⁽¹⁾	23,091	25,464	25,100	26,518
Discontinued operations ⁽¹⁾	184	190	197	20,156
Net income	23,275	25,654	25,297	46,674
Earnings per share:				
Basic:				
Income before discontinued operations	\$ 0.28	\$ 0.30	\$ 0.30	\$ 0.32
Discontinued operations	0.00	0.01	0.00	0.24
Net income	\$ 0.28	\$ 0.31	\$ 0.30	\$ 0.56
Diluted:				
Income before discontinued operations	\$ 0.28	\$ 0.30	\$ 0.30	\$ 0.31
Discontinued operations	0.00	0.00	0.00	0.24
Net income	\$ 0.28	\$ 0.30	\$ 0.30	\$ 0.55
Dividends declared per share	\$0.3250	\$0.3250	\$0.3250	\$0.3250

(1) The amounts presented for the three months ended March 31, 2004, June 30, 2004 and September 30, 2004 are not equal to the same amounts previously reported in our quarterly reports on Form 10-Q for each period as a result of discontinued operations consisting of properties sold in fourth quarter 2004. The following is a reconciliation to the amounts previously reported in the Form 10-Q:

For the Three Months Ended	March 31, 2004	June 30, 2004	September 30, 2004
(in thousands, except per share amounts)			
Revenues, previously reported in Form 10-Q	\$54,277	\$59,767	\$61,608
Revenues, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(334)	(342)	(346)
Total revenues	\$53,943	\$59,425	\$61,262
Income before discontinued operations, previously reported in Form 10-Q	\$23,275	\$25,654	\$25,297
Income before discontinued operations, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(184)	(190)	(197)
Income before discontinued operations	\$23,091	\$25,464	\$25,100
Discontinued operations, previously reported in Form 10-Q	\$ —	\$ —	\$ —
Discontinued operations from properties sold subsequent to the respective reporting period	184	190	197
Discontinued operations	\$ 184	\$ 190	\$ 197

For the Year Ended December 31, 2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share amounts)				
Revenues ⁽⁵⁾	\$46,718	\$47,724	\$50,067	\$50,210
Income before discontinued operations ⁽⁵⁾	35,806 ⁽¹⁾	14,998 ⁽²⁾	30,217 ⁽³⁾	15,114 ⁽⁴⁾
Discontinued operations ⁽⁵⁾	1,482	1,131	1,995	62,010
Net income	37,288 ⁽¹⁾	16,129 ⁽²⁾	32,212 ⁽³⁾	77,124 ⁽⁴⁾
Earnings per share:				
Basic:				
Income before discontinued operations	\$ 0.45 ⁽¹⁾	\$ 0.19 ⁽²⁾	\$ 0.38 ⁽³⁾	\$ 0.19 ⁽⁴⁾
Discontinued operations	0.02	0.01	0.03	0.78
Net income	\$ 0.47 ⁽¹⁾	\$ 0.20 ⁽²⁾	\$ 0.41 ⁽³⁾	\$ 0.97 ⁽⁴⁾
Diluted:				
Income before discontinued operations	\$ 0.45 ⁽¹⁾	\$ 0.19 ⁽²⁾	\$ 0.38 ⁽³⁾	\$ 0.18 ⁽⁴⁾
Discontinued operations	0.02	0.01	0.02	0.78
Net income	\$ 0.47 ⁽¹⁾	\$ 0.20 ⁽²⁾	\$ 0.40 ⁽³⁾	\$ 0.96 ⁽⁴⁾
Dividends declared per share	\$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) The amounts presented for the three months ended March 31, 2003, June 30, 2003 and September 30, 2003 are not equal to the same amounts previously reported in our quarterly reports on Form 10-Q for each period as a result of discontinued operations consisting of properties sold in fourth quarter 2004. The following is a reconciliation to the amounts previously reported in the Form 10-Q:

For the Three Months Ended	March 31, 2003	June 30, 2003	September 30, 2003
(in thousands, except per share amounts)			
Revenues, previously reported in Form 10-Q	\$47,003	\$48,016	\$50,401
Revenues, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(285)	(292)	(334)
Total revenues	\$46,718	\$47,724	\$50,067
Income before discontinued operations, previously reported in Form 10-Q	\$35,934	\$15,129	\$30,392
Income before discontinued operations, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(128)	(131)	(175)
Income before discontinued operations	\$35,806	\$14,998	\$30,217
Discontinued operations, previously reported in Form 10-Q	\$ 1,354	\$ 1,000	\$ 1,820
Discontinued operations from properties sold subsequent to the respective reporting period	128	131	175
Discontinued operations	\$ 1,482	\$ 1,131	\$ 1,995

Note 17—Condensed Consolidating Information

We and certain of our direct and indirect wholly owned subsidiaries (the “Wholly Owned 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 the Issuers. ETOP, which is a greater than 99% owned indirect subsidiary, and certain of its wholly owned subsidiaries (the “ETOP Subsidiary Guarantors” and collectively, with the Wholly Owned Subsidiary Guarantors, the “Guarantors”), have also provided a guarantee, on a joint and several basis, of the Senior Notes. We have other subsidiaries (“Non-Guarantor Subsidiaries”) that are not included among the 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, and instruments governing certain Non-Guarantor Subsidiaries’ outstanding indebtedness, may under certain circumstances restrict our ability to obtain cash from our Non-Guarantor Subsidiaries for the purpose of meeting our debt service obligations, including our guarantee of payment of principal and interest on the Senior Notes. Additionally, as of December 31, 2004, approximately \$113.5 million of the net assets of Ventas Realty were mortgaged to secure our revolving credit facility. Certain of our real estate assets are also subject to mortgages. The following summarizes our condensed consolidating information as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004:

Condensed Consolidating Balance Sheet

As of December 31, 2004 (in thousands)	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Assets							
Total net real estate investments	\$ 12,806	\$ 58,339	\$ —	\$772,883	\$227,104	\$ —	\$1,071,132
Cash and cash equivalents	48	37	3	1,846	1,431	—	3,365
Escrow deposits and restricted cash	237	138	—	12,812	12,523	—	25,710
Deferred financing costs, net	—	—	—	10,938	2,612	—	13,550
Notes receivable from employees	1,716	—	—	1,500	—	—	3,216
Equity in affiliates	391,817	80,447	114,867	—	15	(587,146)	—
Other	—	298	—	8,555	1,109	—	9,962
Total assets	\$406,624	\$139,259	\$114,870	\$808,534	\$244,794	\$(587,146)	\$1,126,935
Liabilities and stockholders’ equity (deficit)							
Liabilities:							
Senior Notes payable and other debt	\$ —	\$ 436	\$ —	\$530,037	\$312,705	\$ —	\$ 843,178
Intercompany	—	3,622	—	(7,802)	4,180	—	—
Deferred revenue	71	—	—	10,489	2,327	—	12,887
Interest rate swap agreements	—	—	—	16,550	—	—	16,550
Accrued dividend	27,498	—	—	—	—	—	27,498
Accrued interest	—	3	—	7,435	1,305	—	8,743
Accounts payable and other accrued liabilities	2,030	175	—	19,895	4,968	393	27,461
Deferred income taxes	30,394	—	—	—	—	—	30,394
Total liabilities	59,993	4,236	—	576,604	325,485	393	966,711
Total stockholders’ equity (deficit)	346,631	135,023	114,870	231,930	(80,691)	(587,539)	160,224
Total liabilities and stockholders’ equity (deficit)	\$406,624	\$139,259	\$114,870	\$808,534	\$244,794	\$(587,146)	\$1,126,935

(1) 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.

Condensed Consolidating Balance Sheet

As of December 31, 2003 (in thousands)	Ventas, Inc.	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	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
Escrow deposits and 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	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:						
Senior 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 and other accrued liabilities	2,179	—	12,789	—	—	14,968
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

(1) 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.

Condensed Consolidating Statement of Income

For the Year Ended December 31, 2004	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)							
Revenues:							
Rental income	\$ 2,271	\$5,198	\$ —	\$177,745	\$47,697	\$ —	\$232,911
Interest income from loan receivable	—	—	—	2,958	—	—	2,958
Equity earnings in affiliates	119,661	(426)	3,218	—	—	(122,453)	—
Interest and other income	161	11	—	703	112	—	987
Total revenues	122,093	4,783	3,218	181,406	47,809	(122,453)	236,856
Expenses:							
Property-level expense	—	—	—	142	1,195	—	1,337
General, administrative and professional fees	487	516	17	12,484	3,413	—	16,917
Amortization of restricted stock grants	12	27	—	928	240	—	1,207
Depreciation	694	1,960	—	37,214	9,167	—	49,035
Interest	—	139	—	52,125	14,553	—	66,817
Loss on extinguishment of debt	—	—	—	1,370	—	—	1,370
Intercompany interest	—	(110)	—	(409)	519	—	—
Total expenses	1,193	2,532	17	103,854	29,087	—	136,683
Income (loss) before discontinued operations	120,900	2,251	3,201	77,552	18,722	(122,453)	100,173
Discontinued operations	—	—	—	20,727	—	—	20,727
Net income (loss)	\$120,900	\$2,251	\$3,201	\$ 98,279	\$18,722	\$(122,453)	\$120,900

(1) 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.

Condensed Consolidating Statement of Income

For the Year Ended December 31, 2003	Ventas, Inc.	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)						
Revenues:						
Rental income	\$ 2,112	\$ —	\$154,926	\$32,949	\$ —	\$189,987
Interest income from loan receivable	—	—	3,036	—	—	3,036
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	159,304	32,962	(147,169)	194,719
Expenses:						
General, administrative and professional fees	159	—	12,482	2,517	—	15,158
Reversal of contingent liability	(20,164)	—	—	—	—	(20,164)
Amortization of restricted stock grants	13	—	1,049	212	—	1,274
Depreciation	694	—	33,487	5,319	—	39,500
Net loss on swap breakage	—	—	5,168	—	—	5,168
Interest	—	—	53,376	8,284	—	61,660
Loss on extinguishment of debt	—	—	—	84	—	84
Interest on United States Settlement	4,943	—	—	—	—	4,943
Total expenses	(14,355)	—	105,562	16,416	—	107,623
Operating income (loss)	162,753	1,224	53,742	16,546	(147,169)	87,096
Gain on sale of Kindred common stock	—	—	9,039	—	—	9,039
Income (loss) before discontinued operations	162,753	1,224	62,781	16,546	(147,169)	96,135
Discontinued operations	—	—	59,713	6,905	—	66,618
Net income (loss)	\$162,753	\$1,224	\$122,494	\$23,451	\$(147,169)	\$162,753

(1) 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.

Condensed Consolidating Statement of Income

For the Year Ended December 31, 2002 (in thousands)	Ventas, Inc.	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Revenues:						
Rental income	\$ 1,959	\$ —	\$141,011	\$31,852	\$ —	\$174,822
Interest income on real estate loan	—	—	995	—	—	995
Equity earnings in affiliates	67,572	536	—	—	(68,108)	—
Interest and other income	283	—	822	73	—	1,178
Total revenues	69,814	536	142,828	31,925	(68,108)	176,995
Expenses:						
General, administrative and professional fees	134	—	10,585	2,194	—	12,913
Amortization of restricted stock grants	19	—	1,519	315	—	1,853
Depreciation	694	—	32,206	5,329	—	38,229
Net loss on swap breakage	—	—	5,407	—	—	5,407
Interest	—	—	62,057	10,327	—	72,384
Interest on United States Settlement	5,461	—	—	—	—	5,461
Loss on extinguishment of debt	—	—	11,077	—	—	11,077
Total expenses	6,308	—	122,851	18,165	—	147,324
Operating income	63,506	536	19,977	13,760	(68,108)	29,671
Gain on sale of Kindred common stock	—	—	5,014	—	—	5,014
Income (loss) before benefit for income taxes, gain on disposal of real estate and discontinued operations	63,506	536	24,991	13,760	(68,108)	34,685
Provision (benefit) for income taxes	(2,200)	—	—	—	—	(2,200)
Income (loss) before gain on disposal of real estate assets and discontinued operations	65,706	536	24,991	13,760	(68,108)	36,885
Net gain on real estate disposals	—	—	64	—	—	64
Income (loss) before discontinued operations	65,706	536	25,055	13,760	(68,108)	36,949
Discontinued operations	—	—	28,565	192	—	28,757
Net income (loss)	\$65,706	\$ 536	\$ 53,620	\$13,952	\$(68,108)	\$ 65,706

(1) 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.

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2004 (in thousands)	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Net cash provided by (used in) operating activities	\$ 2,578	\$ 4,260	\$(19)	\$ 112,982	\$ 30,157	\$—	\$ 149,958
Net cash provided by (used in) investing activities	(121,141)	27,152	14	(205,589)	869	—	(298,695)
Cash flows from financing activities:							
Net change in borrowings under revolving credit facility	—	—	—	39,000	—	—	39,000
Issuance of Senior Notes	—	—	—	125,000	—	—	125,000
Repayment of debt	—	(3,509)	—	(59,100)	(4,402)	—	(67,011)
Payment of deferred financing costs	—	—	—	(5,350)	—	—	(5,350)
Cash distributions from affiliates	140,205	(35,366)	8	(79,648)	(25,199)	—	—
Intercompany note issuance	—	7,500	—	(7,500)	—	—	—
Issuance of common stock	64,206	—	—	—	—	—	64,206
Proceeds from stock option exercises	17,676	—	—	—	—	—	17,676
Cash dividends to stockholders	(103,523)	—	—	—	—	—	(103,523)
Net cash provided by (used in) financing activities	118,564	(31,375)	8	12,402	(29,601)	—	69,998
Net increase (decrease) in cash and cash equivalents	1	37	3	(80,205)	1,425	—	(78,739)
Cash and cash equivalents at beginning of period	47	—	—	82,051	6	—	82,104
Cash and cash equivalents at end of period	\$ 48	\$ 37	\$ 3	\$ 1,846	\$ 1,431	\$—	\$ 3,365

(1) 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.

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2003	Ventas, Inc.	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)						
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 credit facility	—	—	(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 on United States Settlement	(46,647)	—	—	—	—	(46,647)
Payment of deferred financing costs	—	—	(40)	—	—	(40)
Cash distributions from affiliates	(54,167)	(1,224)	(66,742)	(25,036)	147,169	—
Issuance of common stock	22,604	—	—	—	—	22,604
Cash dividends 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)
Net increase (decrease) in cash and cash equivalents	(1)	—	79,645	5	—	79,649
Cash and cash equivalents at beginning of period	48	—	2,406	1	—	2,455
Cash and cash equivalents at end of period	\$ 47	\$ —	\$ 82,051	\$ 6	\$ —	\$ 82,104

(1) 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.

Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2002	Ventas, Inc.	Wholly Owned Subsidiary Guarantors	Issuers ⁽¹⁾	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)						
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 credit facility	—	—	(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 on swap breakage fee	—	—	(12,837)	—	—	(12,837)
Payment on United States Settlement	(10,755)	—	—	—	—	(10,755)
Payment of deferred financing costs	—	—	(15,127)	—	—	(15,127)
Cash distributions from affiliates	(102,848)	(536)	55,917	(20,641)	68,108	—
Issuance of common stock	93,560	—	—	—	—	93,560
Proceeds from stock option exercises	3,595	—	—	—	—	3,595
Cash dividends 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)
Net increase (decrease) in cash and cash equivalents	(1,603)	—	(14,539)	1	—	(16,141)
Cash and cash equivalents at beginning of period	1,651	—	16,945	—	—	18,596
Cash and cash equivalents at end of period	\$ 48	\$ —	\$ 2,406	\$ 1	\$ —	\$ 2,455

(1) 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.

Note 18 – ETOP Condensed Consolidating Information

ETOP, which is a greater than 99% owned indirect subsidiary of Ventas, Inc., and the ETOP Subsidiary Guarantors have provided full and unconditional guarantees, on a joint and several basis with us and certain of our direct and indirect wholly owned subsidiaries, of the obligation to pay principal and interest with respect to the Senior Notes. See “Note 17—Condensed Consolidating Information.” Certain of ETOP’s other direct and indirect wholly owned subsidiaries (the “ETOP Non-Guarantor Subsidiaries”) that have not provided the Guarantee of the Senior Notes are therefore not directly obligated with respect to the Senior Notes.

Contractual and legal restrictions, including those contained in the instruments governing certain of the ETOP Non-Guarantor

Subsidiaries’ outstanding indebtedness, may under certain circumstances restrict ETOP’s (and therefore our) ability to obtain cash from the ETOP Non-Guarantor Subsidiaries for the purpose of satisfying the debt service obligations of ETOP and Ventas including ETOP’s and our guarantee of payment of principal and interest on the Senior Notes. See “Note 7—Borrowing Arrangements.” Certain of the ETOP Subsidiary Guarantors’ properties are subject to mortgages.

For comparative purposes, the ETOP Condensed Consolidating Financial Statements for the periods prior to the ElderTrust merger are presented as “Predecessor Company” financial statements and are not included as part of our Condensed Consolidating Financial Statements for those periods.

Condensed Consolidating Balance Sheet

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
As of December 31, 2004				
(in thousands)				
Assets				
Total net real estate investments	\$ 58,339	\$ 97,404	\$ —	\$155,743
Cash and cash equivalents	37	1,173	—	1,210
Restricted cash	138	6,567	—	6,705
Equity in affiliates	80,447	15	(80,462)	—
Other assets	298	592	—	890
Total assets	\$139,259	\$105,751	\$(80,462)	\$164,548
Liabilities and partners’ equity (deficit)				
Liabilities:				
Notes payable and other debt	\$ 436	\$ 77,297	\$ —	\$ 77,733
Intercompany	(4,180)	4,180	—	—
Note payable to affiliate	7,802	—	—	7,802
Accrued interest	3	700	—	703
Accounts payable and other accrued liabilities	175	3,148	—	3,323
Total liabilities	4,236	85,325	—	89,561
Total partners’ equity (deficit)	135,023	20,426	(80,462)	74,987
Total liabilities and partners’ equity (deficit)	\$139,259	\$105,751	\$(80,462)	\$164,548

Predecessor Company Condensed Consolidating Balance Sheet

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
As of December 31, 2003 (unaudited)				
(in thousands)				
Assets				
Total net real estate investments	\$ 59,193	\$91,456	\$ —	\$150,649
Property held for sale	4,971	—	—	4,971
Cash and cash equivalents	24,848	821	—	25,669
Restricted cash	673	4,774	—	5,447
Accounts receivable from affiliated entities	9,801	(6,263)	—	3,538
Equity in affiliates	52,481	5	(52,486)	—
Other assets	963	1,161	—	2,124
Total assets	\$152,930	\$91,954	\$(52,486)	\$192,398
Liabilities and partners’ equity (deficit)				
Liabilities:				
Notes payable and other debt and lease obligations	\$ 3,964	\$80,481	\$ —	\$ 84,445
Liabilities associated with assets held for sale	2,597	—	—	2,597
Accounts payable and other accrued liabilities	9,060	6,167	—	15,227
Total liabilities	15,621	86,648	—	102,269
Minority interest	(24)	—	—	(24)
Total partners’ equity (deficit)	137,333	5,306	(52,486)	90,153
Total liabilities and partners’ equity (deficit)	\$152,930	\$91,954	\$(52,486)	\$192,398

Condensed Consolidating Statement of Income

For the Period from February 5, 2004 through December 31, 2004 (in thousands)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Revenues:				
Rental income	\$5,198	\$10,559	\$ —	\$15,757
Interest and other income	11	104	—	115
Equity earnings in affiliates	(426)	—	426	—
Total revenues	4,783	10,663	426	15,872
Expenses:				
Property-level expense	—	1,161	—	1,161
General, administrative and professional fees	516	769	—	1,285
Amortization of restricted stock grants	27	48	—	75
Depreciation	1,960	3,066	—	5,026
Interest	139	5,526	—	5,665
Intercompany interest	(110)	519	—	409
Total expenses	2,532	11,089	—	13,621
Net income (loss)	\$2,251	\$ (426)	\$426	\$ 2,251

Predecessor Company Condensed Consolidating Statement of Income

For the Period from January 1, 2004 through February 4, 2004 (in thousands)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Revenues:				
Rental income	\$507	\$1,005	\$ —	\$1,512
Interest and other income	113	10	(63)	60
Equity earnings in affiliates	66	—	(66)	—
Total revenues	686	1,015	(129)	1,572
Expenses:				
Property-level expense	—	101	—	101
General and administrative	182	18	—	200
Depreciation	192	295	—	487
Interest	40	509	—	549
Intercompany interest	37	26	(63)	—
Loss on sale of fixed assets	10	—	—	10
Loss on extinguishment of debt	8	—	—	8
Total expenses	469	949	(63)	1,355
Income (loss) before discontinued operations	217	66	(66)	217
Discontinued operations	414	—	—	414
Net income (loss)	\$631	\$ 66	\$ (66)	\$ 631

Predecessor Company Condensed Consolidating Statement of Income

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
For the Year Ended December 31, 2003 (unaudited)				
(in thousands)				
Revenues:				
Rental income	\$ 6,385	\$12,335	\$ —	\$18,720
Interest and other income	198	108	—	306
Intercompany interest income	4,816	—	(4,816)	—
Equity earnings in affiliates	481	—	(481)	—
Total revenues	11,880	12,443	(5,297)	19,026
Expenses:				
Property-level expense	—	1,229	—	1,229
General and administrative	2,358	275	—	2,633
Severance expense	1,270	—	—	1,270
Depreciation	2,345	3,493	—	5,838
Interest	2,043	5,976	—	8,019
Intercompany interest	669	989	(1,658)	—
Gain on extinguishment of debt	(1,039)	—	—	(1,039)
Total expenses	7,646	11,962	(1,658)	17,950
Income (loss) before discontinued operations	4,234	481	(3,639)	1,076
Discontinued operations	133	—	3,241	3,374
Net income (loss)	\$ 4,367	\$ 481	\$ (398)	\$ 4,450

Predecessor Company Condensed Consolidating Statement of Income

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
For the Year Ended December 31, 2002 (unaudited)				
(in thousands)				
Revenues:				
Rental income	\$ 6,646	\$9,584	\$ —	\$16,230
Interest and other income	1,241	51	—	1,292
Intercompany interest income	2,020	—	(2,020)	—
Equity earnings in affiliates	447	—	(447)	—
Total revenues	10,354	9,635	(2,467)	17,522
Expenses:				
Property-level expense	128	1,161	—	1,289
General and administrative	2,098	210	—	2,308
Depreciation	2,372	2,679	—	5,051
Interest	2,974	4,800	—	7,774
Intercompany interest	—	338	(338)	—
Total expenses	7,572	9,188	(338)	16,422
Operating income	2,782	447	(2,129)	1,100
Equity in losses of unconsolidated entities	(21)	—	—	(21)
Income (loss) before discontinued operations	2,761	447	(2,129)	1,079
Discontinued operations	(2,948)	—	2,612	(336)
Net income (loss)	\$ (187)	\$ 447	\$ 483	\$ 743

Condensed Consolidating Statement of Cash Flows

For the Period from February 5, 2004 through December 31, 2004 (in thousands)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Net cash provided by operating activities	\$ 4,260	\$ 3,108	\$—	\$ 7,368
Net cash used in investing activities	—	(83)	—	(83)
Cash flows from financing activities:				
Repayment of debt	(3,509)	(1,169)	—	(4,678)
Issuance of note payable	7,500	—	—	7,500
Partner distribution	(35,366)	(1,551)	—	(36,917)
Net cash used in financing activities	(31,375)	(2,720)	—	(34,095)
Net increase (decrease) in cash and cash equivalents	(27,115)	305	—	(26,810)
Cash and cash equivalents at beginning of period	27,152	868	—	28,020
Cash and cash equivalents at end of period	\$ 37	\$ 1,173	\$—	\$ 1,210

Predecessor Company Condensed Consolidating Statement of Cash Flows

For the Period from January 1, 2004 through February 4, 2004 (in thousands)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
Net cash provided by operating activities	\$ 820	\$ 260	\$—	\$ 1,080
Net cash provided by investing activities	2,806	—	—	2,806
Cash flows from financing activities:				
Cash distribution to unitholders	(1,293)	—	—	(1,293)
Payments on mortgages payable	(30)	(212)	—	(242)
Net cash used in financing activities	(1,323)	(212)	—	(1,535)
Net increase (decrease) in cash and cash equivalents	2,303	48	—	2,351
Cash and cash equivalents at beginning of period	24,848	821	—	25,669
Cash and cash equivalents at end of period	\$27,151	\$ 869	\$—	\$28,020

Predecessor Company Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2003 (unaudited)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
Net cash provided by operating activities	\$ 23,429	\$ 2,617	\$—	\$ 26,046
Net cash provided by (used in) investing activities	34,258	(293)	—	33,965
Cash flows from financing activities:				
Issuance of partnership units	(112)	—	—	(112)
Distributions to unitholders	(3,855)	—	—	(3,855)
Payments on mortgages payable	(36,533)	(1,154)	—	(37,687)
Net cash used in financing activities	(40,500)	(1,154)	—	(41,654)
Net increase (decrease) in cash and cash equivalents	17,187	1,170	—	18,357
Cash and cash equivalents at beginning of period	6,906	473	—	7,379
Cash and cash equivalents at end of period	\$ 24,093	\$ 1,643	\$—	\$ 25,736

Predecessor Company Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2002 (unaudited)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
Net cash provided by operating activities	\$ 5,044	\$3,701	\$—	\$ 8,745
Net cash provided by (used in) investing activities	922	(340)	—	582
Cash flows from financing activities:				
Proceeds from (payments on) mortgages payable	(10,739)	4,034	—	(6,705)
Net cash provided by (used in) financing activities	(10,739)	4,034	—	(6,705)
Net increase (decrease) in cash and cash equivalents	(4,773)	7,395	—	2,622
Cash and cash equivalents at beginning of period	2,016	640	—	2,656
Cash and cash equivalents at end of period	\$ (2,757)	\$8,035	\$—	\$ 5,278

Supplemental Data

2004

Funds from Operations

FFO and Normalized FFO for the years ended December 31, 2004 and 2003:

For the Years Ended December 31,	2004	2003
(in thousands, except per share amounts)		
Net income	\$120,900	\$162,753
Adjustments:		
Depreciation on real estate assets	48,647	36,993
Other items:		
Discontinued operations:		
Real estate depreciation – discontinued	203	4,666
Gain on sale of real estate	(19,428)	(51,781)
FFO	150,322	152,631
Realized gain on sale of Kindred common stock	—	(9,039)
Reversal of contingent liability	—	(20,164)
Loss on extinguishment of debt	1,370	84
Normalized FFO	\$151,692	\$123,512
Per diluted share:		
Net income	\$ 1.43	\$ 2.03
Adjustments:		
Depreciation on real estate assets	0.58	0.47
Other items:		
Discontinued operations:		
Real estate depreciation – discontinued	—	0.05
Gain on sale of real estate	(0.23)	(0.64)
FFO	1.78	1.91
Realized gain on sale of Kindred common stock	—	(0.11)
Reversal of contingent liability	—	(0.26)
Loss on extinguishment of debt	0.02	—
Normalized FFO	\$ 1.80	\$ 1.54

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

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

EBITDA

Earnings before interest, income taxes, depreciation and amortization (“EBITDA”) and Normalized EBITDA for the years ended December 31, 2004 and 2003:

For the Years Ended December 31,	2004	2003
(in thousands)		
Net income	\$120,900	\$162,753
Add back:		
Interest	66,817	61,660
Interest on United States Settlement	—	4,943
Depreciation	49,035	39,500
Amortization of restricted stock grants	1,207	1,274
Net loss on swap breakage	—	5,168
Loss on extinguishment of debt	1,370	84
Discontinued operations add back:		
Depreciation	203	2,443
Interest	390	3,501
EBITDA	239,922	281,326
Adjustments:		
Gain on sale of Kindred common stock	—	(9,039)
Reversal of contingent liability	—	(20,164)
Discontinued operations:		
Gain on sale of real estate	(19,428)	(51,781)
Loss on impairment of asset	—	845
Normalized EBITDA	\$220,494	\$201,187

We consider EBITDA a profitability measure which indicates our ability to service debt. Normalized EBITDA excludes income and expense items that are nonrecurring in our core business. 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 our financial performance, as an alternative to cash flow from operating activities (determined in accordance with GAAP), as a measure of our liquidity, nor is EBITDA necessarily indicative of sufficient cash flow to fund all of our needs. We believe that in order to facilitate a clear understanding of our consolidated historical operating results, EBITDA should be examined in conjunction with net income as presented in the Consolidated Financial Statements and data included elsewhere in this Annual Report.

Market for the Company's Common Equity and Related Stockholder Matters 2004

Stock Trading Symbol: VTR

Stock Exchange Listing

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

Stockholders

As of February 25, 2005, there were 84,789,533 shares of our common stock outstanding and approximately 3,709 stockholders of record.

Stock Performance

The prices in the table below for the calendar quarters indicated since the first quarter of 2003 represent the high and low sales prices of our common stock as reported on the NYSE and the dividends declared per share.

	Sales Price of Common Stock		
	High	Low	Dividends Declared
2003			
First Quarter	\$12.24	\$11.08	\$0.2675
Second Quarter	15.33	11.67	0.2675
Third Quarter	18.33	14.83	0.2675
Fourth Quarter	22.98	17.05	0.2675
2004			
First Quarter	\$27.55	\$21.88	\$0.3250
Second Quarter	27.98	20.56	0.3250
Third Quarter	27.84	23.06	0.3250
Fourth Quarter	29.48	24.40	0.3250

Dividend Policy

On February 24, 2005, we declared the first quarterly installment of our 2005 dividend in an amount of \$0.36 per share payable on April 5, 2005 to stockholders of record on March 24, 2005. We expect to distribute 100% or more of our taxable net income to our stockholders for 2005.

A number of factors are considered by our Board of Directors when making the final determination regarding the frequency and amount of our dividends. These decisions regarding dividends are normally made quarterly. Therefore, we cannot assure you that we will maintain the policy started above. 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 our distribution policy.

Our stockholders may reinvest all or a portion of any cash distribution on their shares of our common stock by participating in our Distribution Reinvestment and Stock Purchase Plan, subject to the terms of the plan. See "Note 14—Capital Stock" of the Notes to Consolidated Financial Statements.

Director and Employee Stock Sales

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

Corporate Data

2004

Directors of the Company

Debra A. Cafaro (47)
*Chairman of the Board,
President and
Chief Executive Officer
Ventas, Inc.*

Douglas Crocker II (64)
*Presiding Director of Ventas, Inc.
Retired, Chief Executive
Officer and Vice Chairman
Equity Residential Properties Trust*

Ronald G. Geary (57)
*Chairman of the Board,
President and
Chief Executive Officer
ResCare, Inc.*

Jay M. Gellert (51)
*President and
Chief Executive Officer
Health Net, Inc.*

Christopher T. Hannon (42)
*Senior Vice President and
Chief Financial Officer
Province Healthcare Company*

Sheli Z. Rosenberg (63)
*Retired, Vice Chairman
Equity Group Investments, LLC*

Thomas C. Theobald (67)
*Senior Advisor
Chicago Growth Capital*

Committees of the Board

Audit and Compliance Committee
Crocker (Chair), Geary, Hannon

Executive Compensation Committee
Rosenberg (Chair), Crocker, Theobald

Nominating and Governance Committee
Rosenberg (Chair), Gellert, Theobald

Executive Committee
Gellert (Chair), Cafaro, Crocker, Geary

Investment Committee
Cafaro (Chair), Crocker, Geary

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 Tuesday, May 24, 2005, at noon (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 11, 2005, Ventas had 84,792,624 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

Member

National Association of Real Estate Investment Trusts, Inc.



Concentrated Excellence

	% Value
2004 Normalized FFO Per Share Growth	17%
2004 Total Shareholder Return (TSR)	31%
5-yr. Compounded TSR	59%
2004 Dividend Increase	21%
ISS Corporate Governance Ranking	99%



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