



Ventas, Inc. is a leading healthcare real estate investment trust that is the nation's largest owner of seniors housing and long-term care assets. Its growing portfolio includes 380 healthcare and housing-related facilities containing approximately 42,700 licensed beds and seniors housing units, strategically located in 42 states throughout the U.S.

### Ventas at a Glance 2005

Total Shareholder Return	23.1%
Normalized FFO Per Share	↑ 16%
Annual Dividend Per Share	↑ 11%
Total Acquisition Activity	\$1.5+ billion

#### Portfolio at December 31, 2005

Skilled Nursing Facilities	200
Assisted/Independent Living Facilities	120
Hospitals	41
Personal Care Facilities	8
Medical/Office Buildings	11
Total	380

# Financial Highlights

## 2005

	2005	2004
(in thousands, except per share amounts)		
Operating Data:		
Rental Income	\$ 324,719	\$ 232,076
Total Revenues	332,988	236,021
EBITDA <sup>1</sup>	327,158	240,379
Normalized EBITDA <sup>2</sup>	308,310	220,951
Net Income before Discontinued Operations	125,247	100,220
Net Income	130,583	120,900
Per Share Data:		
FFO <sup>3</sup>	\$ 2.23	\$ 1.78
Normalized FFO <sup>4</sup>	\$ 2.09	\$ 1.80
Income before Discontinued Operations, Diluted	\$ 1.31	\$ 1.19
Net Income, Diluted	\$ 1.36	\$ 1.43
Dividends Paid for Year	\$ 1.44	\$ 1.30
Weighted Average Shares Outstanding, Diluted	95,775	84,532
Closing Stock Price	\$ 32.02	\$ 27.41
Shares Outstanding	103,523	84,599
Other Data:		
Equity Market Capitalization	\$ 3,314,806	\$ 2,318,859
Total Capitalization	\$ 5,117,370	\$ 3,162,037
Debt/Total Capitalization	35.2%	26.7%

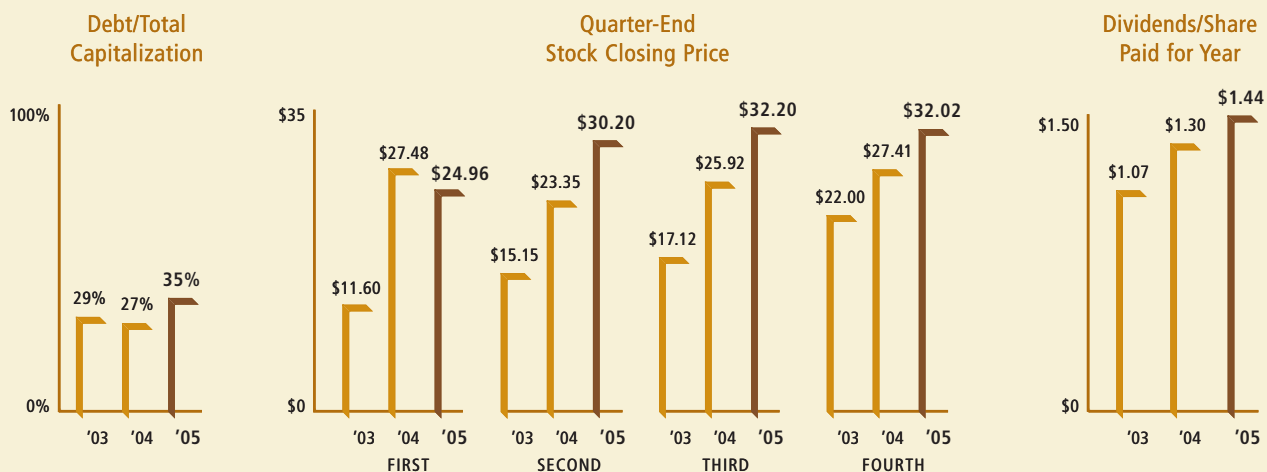
1 Earnings before interest, taxes, depreciation and amortization.

2 Normalized EBITDA includes EBITDA from continuing and discontinued operations but excludes: (a) gains and losses from sales of property; (b) net proceeds from litigation settlement in 2005; and (c) contribution to charitable foundation in 2005.

3 Funds From Operations.

4 Normalized FFO excludes: (a) the loss on extinguishment of debt incurred in connection with Company debt refinancing; (b) net proceeds from litigation settlement in 2005; (c) contribution to charitable foundation in 2005; (d) net gain on swap breakage in 2005; and (e) bridge loan commitment fee in 2005.

For non-GAAP reconciliation, see "Supplemental Data" on page 58.





**Debra A. Cafaro**

Chairman, President and Chief Executive Officer

## Dear Fellow Stakeholder,

I am pleased to present our 2005 annual report and the completion of another successful year in which Ventas continued as the nation's premier healthcare real estate investment trust (REIT). With a 51 percent compound annual total shareholder return (TSR) for the five years ended December 31, 2005, Ventas was the best performing REIT, and the 22nd best performing public company in the nation, for that period. ***In 2005 alone, we delivered a 23 percent annual TSR.*** Significantly, we have achieved our single most important objective: to deliver to you consistent, excellent performance year after year.

2005 was a transformational year for Ventas. Building on our successful record of disciplined growth and diversification, we completed over \$1.5 billion of acquisitions that added more than 90 private pay facilities to our portfolio, catapulting Ventas into the role of the single largest owner of long-term care and seniors housing assets in the country.

In last year's annual report we set out a three- to five-year plan containing these four major goals:

- Decrease Kindred Healthcare, Inc. (NYSE: KND) rent concentration
- Improve credit rating/lower cost of capital
- Increase percentage of private pay facilities
- Actively participate in industry consolidation

And, in just one year we:

- ✓ Reduced Kindred's concentration of our annualized REIT revenues to 52 percent from 76 percent
- ✓ Received debt rating upgrades from both credit agencies
- ✓ Increased our private pay facilities to 44 percent of our annualized REIT revenues from 16 percent
- ✓ Acquired Provident Senior Living Trust, making us the only healthcare REIT to participate in industry consolidation during 2005
- ✓ Invested in people and infrastructure to set the stage for future growth.

Our advances in each of these areas set the pace for our excellent performance.

With over \$5 billion in total enterprise value, we have built a portfolio that is high quality, diverse and very productive. Our 16 percent year-over-year increase in normalized Funds From Operations (FFO) per share in 2005 represented the **fourth consecutive year** of double-digit normalized FFO per share growth. Our priority is to continually increase our normalized FFO per share while we systematically improve enterprise reliability. Accomplishing these objectives simultaneously should produce superior value for shareholders near term and long term.

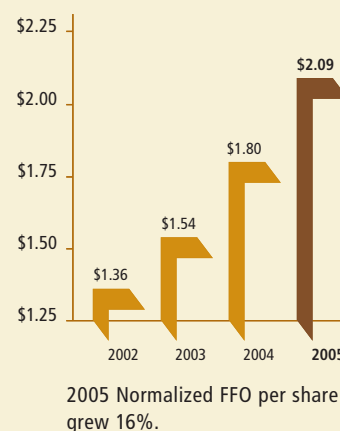
We have achieved these goals by creating a platform with the best internal FFO growth in our sector driven by our industry-leading escalator clauses, and enhanced by accretive acquisitions – including the only two mergers in the healthcare REIT sector since 1999. Concurrently, we have reduced our marginal cost of capital and our administrative costs per dollar of revenue. We have added to that growth by capitalizing on other unique opportunities, such as completing creative asset dispositions with Kindred, receiving sizable tax refunds, and achieving favorable litigation settlements.

We have created more enterprise reliability, too, through our acquisitions and dispositions that have balanced our portfolio by tenant, by geography and most importantly by asset class. Our pivotal 2005 acquisition of Provident Senior Living Trust for \$1.26 billion illustrates our

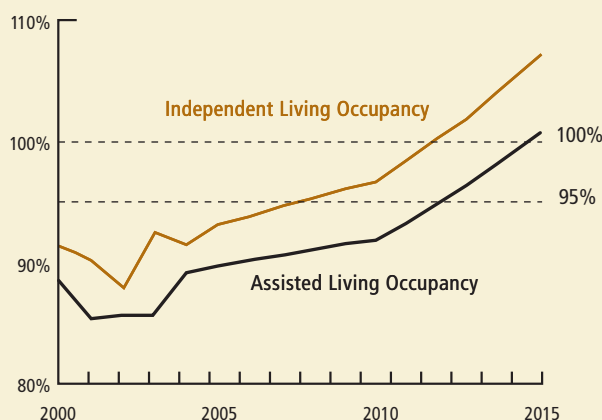
strategy at work. With Provident, we obtained 68 high-quality private pay assisted living (AL) and independent living (IL) assets operated by Chicago-based Brookdale Senior Living Inc. (NYSE: BKD), an experienced and well respected provider of senior care with scale and staying power. These private pay assets, many located in major metropolitan, barrier-to-entry markets, added about \$100 million in annual rents from apartment-like, non-government reimbursed facilities. Rent from private pay sources now accounts for 44 percent of our annualized revenues, balancing our skilled nursing and hospital government pay facilities.

We were especially pleased to add so many AL/IL assets to our portfolio in 2005 because we believe they are at a positive inflection point in their operating cycle. New construction and development of these assets has declined significantly, while demand and market acceptance have risen. This favorable supply-and-demand picture should continue due to high construction costs coupled with long lease-up periods for new facilities. As a result, our tenants should experience rising occupancies and rates, leading to sustained improved performance, making our future rent streams more valuable and reliable.

Normalized FFO Per Share



Seniors Housing Demand Outpaces Construction



Source: GE Healthcare Financial Services

Because we acquired the Provident assets at or below replacement cost, we expect these high quality facilities to increase in value over time, providing our shareholders with an increase in net asset value (NAV). With an 8.3 percent unlevered yield projected on the Provident investment, the acquisition was accretive to our FFO per share and provided an excellent risk-adjusted return on your equity capital. The addition of these private pay assets to our platform has already helped us to decrease our cost of debt, enabling Ventas to compete more effectively for quality acquisitions while achieving our primary goal of increasing shareholder returns. The Provident acquisition also supports our thesis that healthcare REIT consolidation adds value because larger enterprises should realize the benefits of scale, pooling of risk, lower general and administrative costs per dollar of revenue, more competitive capital costs and a liquidity premium in the capital markets.

Our enterprise reliability has also been enhanced by working to insure we get and keep a strong balance sheet. Financial strength and flexibility are imperatives for the success of our Company. At December 31, 2005, our debt was only 35 percent of our total enterprise value. The two major credit upgrades we received at the end of 2005 rewarded our disciplined implementation of our diversification plan and our commitment to keep Ventas financially

strong. In turn, our movement up the credit curve should further this “virtuous cycle” of improvement – lower our borrowing costs, enable us to pursue attractive acquisition opportunities to fuel future growth, and earn more money for our shareholders.

### Looking Ahead to 2006 – Why We Love the Seniors Housing and Healthcare Markets

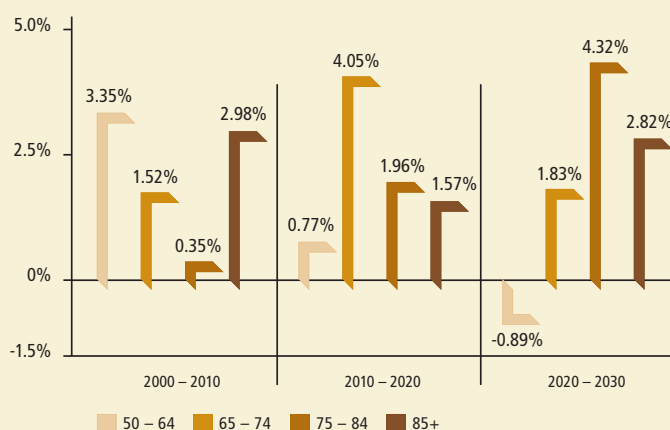
We love the seniors housing market and, yes, even healthcare real estate despite the reality of ever changing government reimbursement rules. These markets are vast and are growing. They are highly fragmented, too, because only a slight percentage of these assets are currently held in institutional hands. All of these factors combine to form a recipe for opportunity: Ventas needs to acquire only a tiny sliver of the potential market each year to continue our successes.

#### *The fundamental driver of our business remains our country's aging population.*

This important group will have changing and growing needs for medical care and seniors housing in the future. Those 80 and over represent the fastest growing segment of the U.S. population. Historically, this demographic has been the largest user of skilled nursing facilities, but now these elders can, and often do, choose private pay seniors housing options, health permitting. As a result, the assisted and

The 85+ age group is growing at 3x the rate of the U.S. population and is driving the demand for seniors housing. Even past 2010, the growth rate of this population will remain well above that for the general population.

**U.S. Population Projections**  
Compound Growth 2000 – 2030



Source: National Population Projections – U.S. Census Bureau

independent living market is large and growing, with Americans expected to pay over \$65 billion annually on this housing alternative.

At the same time that demand for seniors housing options is increasing, new construction and development of assisted and independent living facilities has decreased by 80 percent and 50 percent, respectively, since 1999. And the National Investment Center for the Seniors Housing & Care Industry (NIC) estimates that projected new development will only meet about 78 percent of new demand.

Meanwhile, baby boomers – the first of whom turns 65 in 2011 – will expand their use of medical facilities, especially hospitals (which are often the entry point to the healthcare system), medical office buildings, ambulatory surgery centers and rehabilitation sites to meet their healthcare needs.

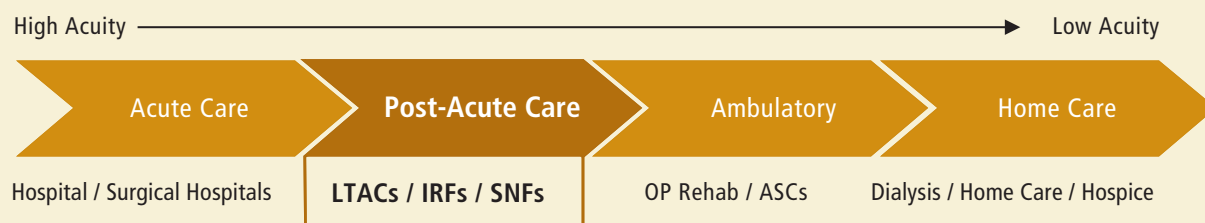
In the government reimbursed healthcare arena, there is a “waterfall” policy that is intended to insure that patients are cared for in the most clinically appropriate, low-cost setting. This policy incentivizes acute care hospitals – the most expensive healthcare setting – to discharge patients as quickly as possible into other facilities in the post-acute continuum of care, like our long-term acute care (LTAC) and rehabilitation hospitals.

While hospitals of all types are continually the subject of Medicare reimbursement change, we believe they will remain an important part of the healthcare delivery system.

At the same time, skilled nursing facilities (SNFs) should see a benefit from the government’s drive to make sure Medicare patients are served in the most cost-effective clinically appropriate setting. This policy should increase demand for SNF services while supply remains constrained. The operating model for SNFs continues to evolve away from a long-term custodial one, to a medical one. It is now common for patients, after a brief hospital stay (say, for a knee replacement), to receive intense rehabilitation treatment at a SNF for 30 to 60 days, and then move on to less acute (often private pay) settings. This change in SNF patient acuity and type should lead to higher occupancies and better financial strength for SNFs.

All of these trends in healthcare and seniors housing should become more pronounced in the short and long term, with some demographic peaks and valleys for each user group. *Our goal as a diversified seniors housing and healthcare REIT is to own the assets that will serve the continuously changing needs of the aging population at multiple points in their lives.*

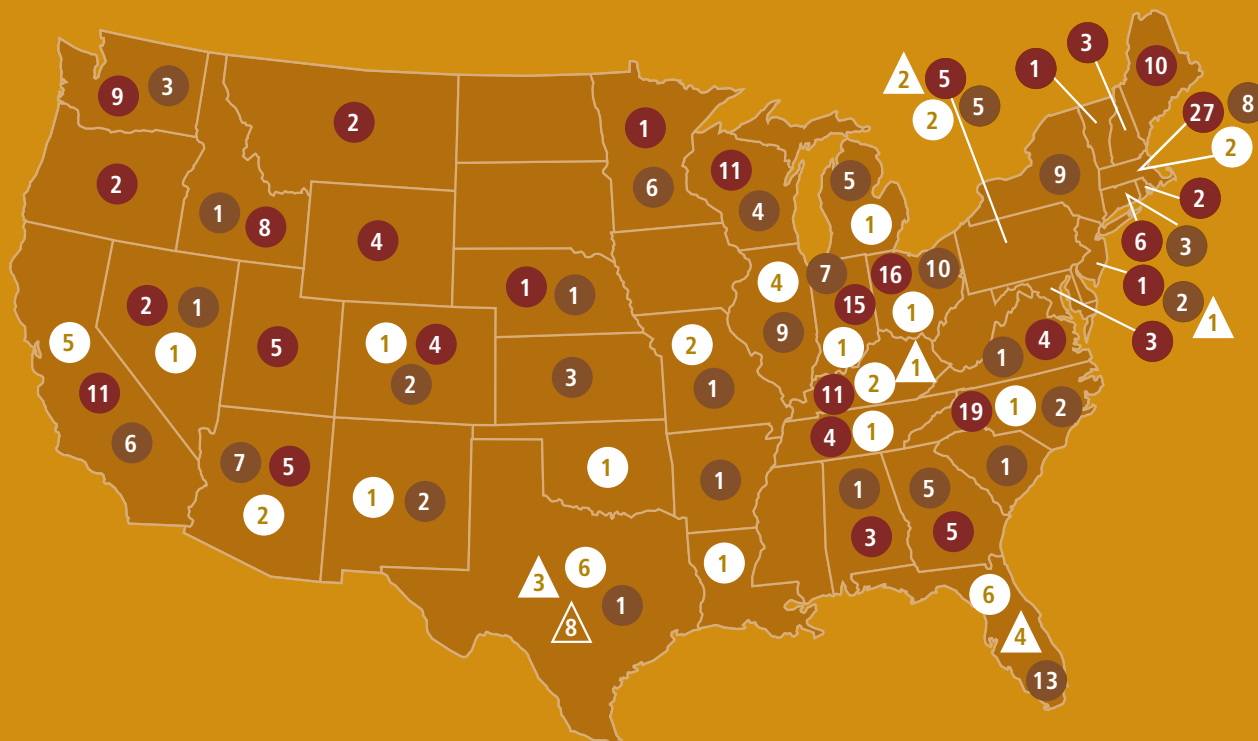
### The Healthcare Continuum



Ventas sees excellent acquisition opportunities in the evolving post-acute care sector, which includes long-term acute care hospitals, inpatient rehab facilities and skilled nursing facilities.

Source: GE Healthcare Financial Services

# Ventas's Diversified Portfolio of 380 Owned Seniors Housing and Healthcare Properties



- Skilled Nursing Facilities (Total: 200)
- Assisted/Independent Living Facilities (Total: 120)
- Hospitals (Total: 41)
- △ Personal Care Facilities (Total: 8)
- ▲ Medical/Office Buildings (Total: 11)

As of December 31, 2005



Healthcare's rapid pace of change will continue and one of our jobs will be to remain nimble and stay out in front of the evolving healthcare delivery system and the housing preferences for seniors. We believe we can participate in the healthcare industry's readjustments and enjoy its upside benefits, while the downside risks are mitigated by our position as an owner of the assets and also by our focus on a balanced portfolio of diversified assets that span the spectrum of seniors housing and healthcare needs.

In selecting assets to add to our portfolio, we will use the same criteria that have served us well in the past – we will seek quality properties managed by successful and seasoned care providers in locations that we think will offer a competitive advantage. Our strategy is to buy assets and companies, like Provident, that should increase in value from expected improvements in facility level cash flows and/or higher multiples due to changing perceptions of asset desirability.

### Investors Crave REITs

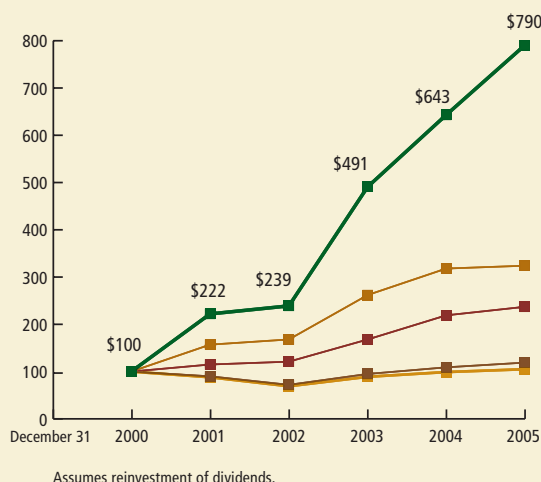
For six consecutive years, REITs have outperformed the broader stock market. Investors have gained new respect for REITs because REITs give them the benefit of real estate appreciation and steady cash flow with lower

risk. A slice of REIT securities in an investor's portfolio has been shown to increase return and decrease volatility, in part because of substantial REIT dividends. REITs are now universally viewed as a key ingredient in a well-diversified and balanced investment strategy. Here, too, demographics may provide the key driver to value.

As an aging global population seeks yield-producing securities to support their retirement and lower risk profile, REIT securities should enjoy increasing demand. *As a seniors housing and healthcare REIT, we occupy a perfect spot in the investment world – at the crossroads of increasing demand from both users of our facilities and purchasers of our securities.*

Sophisticated investors from abroad continue to seek U.S. real estate investments for their positive attributes as well. Currently, there is almost \$150 billion of international capital directly invested in U.S. real estate and more than \$9 billion in REITs, according to the Association of Foreign Investors in Real Estate. This appetite for U.S. real estate has begun to spill over to the healthcare and seniors housing assets, because of their good expected yields and positive perception in the market. As a large owner of these assets, Ventas should benefit from this trend.

### Building Shareholder Value Year After Year



A \$100 investment in Ventas common stock on December 31, 2000, would have grown to \$790 by December 31, 2005.

### Building Our Business for Future Growth

We will continue to look for opportunities to grow and diversify our portfolio by tenant, geography and asset class. With the enormous strides we made in 2005, we now have a broad platform enabling us to exploit new investment opportunities and be selective in our targets. As always, we will move deliberately yet with courage of our convictions. We will continue to be motivated by the singular objective of providing *superior, consistent shareholder returns*.

In 2006, we expect to acquire more private pay seniors housing assets, including assisted and independent living facilities and continuing care retirement communities (CCRCs). We will focus on expanding our portfolio with existing tenants to help them improve their profitability and prospects, and on creating new relationships with care providers who see the advantages of REIT financing. To continue to grow profitably and compete for the best seniors housing assets, we may form partnerships with institutional capital sources, such as pension funds. This strategy will allow us to increase our returns on equity and take advantage of the infrastructure and industry presence we have so carefully built over the past few years.

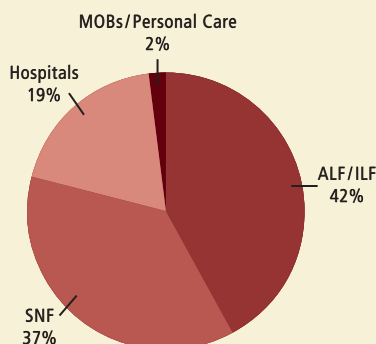
At the same time, we expect to allocate our capital to other areas of healthcare where we see attractive risk-adjusted returns. Adding another asset class to our portfolio also has the benefit of further diversifying our revenue streams and increasing the reliability of our future cash flows. We expect to add hospitals and medical office buildings (MOBs) to achieve those objectives.

Currently, acute care hospitals have moderate acquisition multiples and stable cash flows. Acquisitions made now could prove attractive in the future if either operator cash flow improves or valuation multiples rise. Hospitals own a vast amount and large array of healthcare assets, and we look forward to developing new relationships in this sector that will provide Ventas with current and future growth opportunities.

We are also interested in making a significant investment in MOBs because of the stable cash flows and growth opportunities they provide. MOBs are an asset class where demand should accelerate with the baby boomer wave as they visit doctors and have more outpatient procedures. We hope to team up with an established developer/manager of MOBs for access to a pipeline of opportunities and existing relationships as we pursue this asset class.

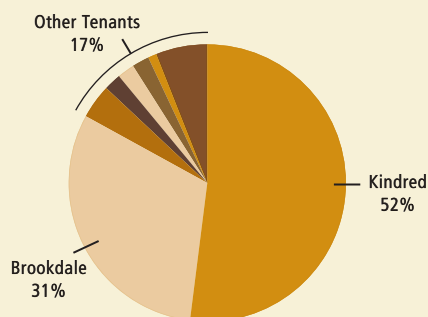
### Asset Class Diversification (% of total revenue)

As of December 31, 2005



### Portfolio Composition by Tenant (% of total revenue)

As of December 31, 2005



Finally, we expect to consider making selective international investments in healthcare and seniors housing in the coming years. We will target countries with graying populations like the United Kingdom, or those developed democracies that are actively building healthcare infrastructure for a young and expanding middle class. This international initiative fits with our strategy to diversify our portfolio by tenant, geography and asset class, and to find opportunities that will lead to future growth. We will move cautiously and incrementally in the international arena, but we are open to the challenge.

To invest and grow, we need capital. We will continue to seek opportunistic divestiture opportunities that provide internally generated capital to redeploy into new investments. Kindred remains the most logical buyer of the assets it leases from us. We could also choose to sell or joint venture a selected portfolio of assets to spread our risk, take advantage of the robust market for healthcare assets and increase our returns.

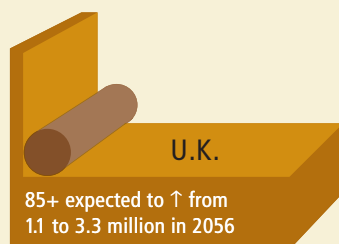
And finally, we remain convinced that industry consolidation in the healthcare REIT sector should occur. The benefits of scale, liquidity, risk pooling, lower costs of capital and improved profit margins are too compelling to ignore. We expect to be an active participant in the REIT trend of consolidation.

As we execute on these ideas, we want to stay a step ahead of the curve in the evolution in our sector and seize opportunities that come with change. In our view, every environment can provide a chance to move forward, and our job is to position the Company to succeed regardless of changes in the market.

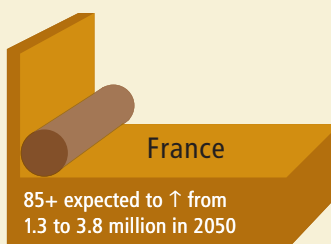
***Our overall goals remain consistent: to deliver superior risk-adjusted returns, produce double-digit FFO growth, increase cash flow, share our success with our shareholders through a growing dividend, reduce the cost of our debt and implement our strategic growth and diversification program.*** If we accomplish these objectives, we will create value for our shareholders.

We began the year on an excellent note. Our Board of Directors announced a ten percent increase in our quarterly dividend. This significant increase repeats our pattern of delivering a secure, growing dividend stream and evidences our confidence in our assets, our cash flow and our industry. Our dividend increase also strikes the right balance between sharing Ventas's success with our shareholders and retaining a significant amount of free cash flow to continue our investment program.

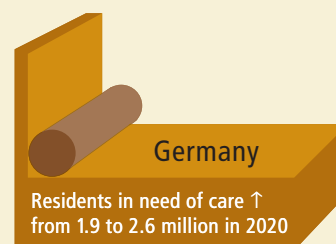
### European Long-Term Care Poised for Rapid Growth



Demographically estimated demand set to ↑ by ~10,000 beds post 2005



Estimated shortage of 40,000 beds growing to 100,000 over next 10 years



Estimated shortage of 10,000 beds per year through 2010

Source: GE Healthcare Financial Services

We will look for international opportunities to enhance our strategy to diversify our portfolio by tenant, geography and asset class.

### **Our Unique Option – The Reset Right**

The reset right is Ventas's unique option to increase Kindred's rents to market levels. It was an important element of Kindred's multiparty restructuring in 2001. As Kindred's largest creditor, Ventas provided over \$500 million in financial contributions to Kindred to restore it to financial health. In return, we sought a fair and equitable way for Ventas to receive a future benefit if Kindred and the long-term care industry recovered from their severe downturn. Other Kindred creditors that provided concessions to Kindred received the lion's share of Kindred's equity, and most have made back their investment many times over. The reset right contained in our Master Leases is an innovative, REIT-compliant way to deliver a similar benefit to Ventas shareholders.

We have the luxury – known in the financial markets as “option value” – of an 18-month period within which we can initiate the reset process. This 18-month reset notice window provides us with great flexibility as we seek to optimize the value of the reset right.

***The best aspect of the reset right is that base rent under the Master Leases can only go up, not down.*** We intend to be tactical, thoughtful and aggressive in our decision about when and how to use the reset right to deliver value to Ventas shareholders either through the appraisal process or a consensual arrangement with Kindred.

In either event, I believe that the reset right has significant value, and I look forward to using it as an asset to help build Ventas into a larger, more profitable enterprise.

### **Superior Governance, Team and Values**

Our credibility with our various stakeholders remains one of our most precious assets. We have worked hard to earn trust through frequent and transparent communication, our commitment to good governance, and reliable and consistent performance.

We are pleased that once again Institutional Shareholder Services has given us a 99th percentile governance rating, which puts us in the top one percent of our peer companies across all industries.

We are incredibly fortunate to have the continued commitment and service of our six independent directors who provided us with their guidance throughout the year. We are thankful for their knowledge, insight and time. Their experience and quality provide Ventas with a competitive advantage in decision making and strategy. They are a tremendous asset to us and to you.

Nothing could be more essential to our performance – past and future – than our team of professionals who have the skills, integrity, experience and dedication to create an excellent organization.

Ray Lewis, Rick Riney, and Rick Schweinhart are always ready to meet new challenges, expand our business and lead others by their strong example. We have formed a cohesive group, with an emphasis on character and commitment, and we truly enjoy building an enterprise of lasting value. We have sought to recruit and retain other individuals who share our vision and also bring diverse and fresh outlooks to the Company. Together with our administrative staff, whose professionalism and productivity are second to none, our team is focused on excellence and achievement for Ventas.

We were particularly delighted this year to establish our Ventas Charitable Foundation with a contribution of \$2 million, using funds that we received in our settlement of the Sullivan & Cromwell suit in late 2005. We intend to use the Foundation to support charitable organizations that are important to our employees and to the communities in which we live. We view the Foundation as a modest way to institutionalize our ongoing charitable efforts and to demonstrate our appreciation for the good fortune that has come our way.

### **Our Commitment to Excellence**

During my seven years at Ventas, I have developed a genuine appreciation for the long-term value and strength of healthcare and seniors housing real estate. Indeed, I have become a proselytizer who feels compelled to educate others about the rewards of investing in this vast and growing part of our economy and our lives. I look forward to the time when healthcare REITs are included among the "major food groups" of the vibrant REIT sector and represented in all the major market indices. We have made headway on that score but I believe we have much more running room ahead of us.

Together with the Board and my Ventas colleagues, we have achieved great success for you, our shareholders. You have reciprocated by giving us your support, creative ideas, the benefit of the doubt when we ask for it, and the confidence of your continued investment. In the year ahead, we will continue to be forthright in our communications with you, diligent in our efforts to advance Ventas's business and focused on delivering excellent returns for your benefit.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Cafaro", with a stylized flourish at the end.

Debra A. Cafaro

Chairman, President and  
Chief Executive Officer

March 20, 2006

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# Selected Financial Data

## 2005

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

As of and For the Years Ended December 31, (in thousands, except per share data)	2005	2004	2003	2002	2001
<b>Operating Data</b>					
Rental income	\$ 324,719	\$ 232,076	\$ 189,987	\$ 174,822	\$ 169,392
Interest expense	105,581	66,105	61,660	72,384	79,595
General, administrative and professional fees	23,104	16,460	14,673	12,913	14,902
Income before discontinued operations	125,247	100,220	96,135	36,949	46,496
Discontinued operations	5,336	20,680	66,618	28,757	4,070
Net income	130,583	120,900	162,753	65,706	50,566
<b>Per Share Data</b>					
Income per common share before discontinued operations, basic	\$ 1.32	\$ 1.20	\$ 1.21	\$ 0.53	\$ 0.68
Net income per common share, basic	\$ 1.37	\$ 1.45	\$ 2.05	\$ 0.95	\$ 0.74
Income per common share before discontinued operations, diluted	\$ 1.31	\$ 1.19	\$ 1.20	\$ 0.53	\$ 0.67
Net income per common share, diluted	\$ 1.36	\$ 1.43	\$ 2.03	\$ 0.93	\$ 0.73
Dividends declared per common share	\$ 1.44	\$ 1.30	\$ 1.07	\$ 0.95	\$ 0.92
<b>Other Data</b>					
Net cash provided by operating activities	\$ 223,764	\$ 149,958	\$ 137,366	\$ 116,385	\$ 79,893
Net cash (used in) provided by investing activities	(615,041)	(298,695)	159,701	(34,140)	2,760
Net cash provided by (used in) financing activities	389,553	69,998	(217,418)	(98,386)	(151,458)
FFO <sup>(1)</sup>	213,203	150,322	152,631	84,083	92,180
<b>Balance Sheet Data</b>					
Real estate investments, at cost	\$3,027,896	\$1,512,211	\$1,090,181	\$1,221,406	\$1,175,838
Cash and cash equivalents	1,641	3,365	82,104	2,455	18,596
Total assets	2,639,118	1,126,935	812,850	895,780	941,859
Senior notes payable and other debt	1,802,564	843,178	640,562	707,709	848,368

(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 U.S. 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 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" included elsewhere in this Annual Report.

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

## 2005

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

- Key transactions that we completed in 2005;
- Our critical accounting policies and estimates;
- Accounting policies that we adopted in 2005, 2004 and 2003;
- Our results of operations for the last three years;
- Our liquidity and capital resources; and
- Our funds from operations.

### Key Transactions in 2005

During 2005, we completed the following key transactions:

- We acquired all of the outstanding common shares of Provident Senior Living Trust ("Provident") in a transaction valued at approximately \$1.2 billion, which added 68 seniors housing facilities to our portfolio.
- We acquired seven seniors housing facilities from a new tenant who is a publicly traded seniors housing operator in two transactions valued at \$104.5 million.
- We acquired eight seniors housing facilities from an existing tenant in five transactions valued at \$104.0 million.
- We issued six first mortgage loans bearing interest at an annual rate of nine percent in the aggregate principal amount of \$36.4 million.
- We issued \$200.0 million of 6½% unsecured senior notes, maturing on June 1, 2016; \$175.0 million of 6½% unsecured senior notes, maturing on June 1, 2010; \$175.0 million of 7½% unsecured senior notes, maturing on June 1, 2015 and an additional \$50.0 million of our existing 6½% unsecured senior notes, maturing on October 15, 2014.
- We repaid all obligations under our commercial mortgage backed securitization ("CMBS") loan, which had an outstanding principal balance of \$209.8 million at the time of the payoff.
- We raised \$97.0 million in net proceeds through the sale of 3,247,000 shares of our common stock in an underwritten public offering.

### Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which requires us to make estimates and judgments about future events that affect the reported amounts in the financial statements 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. For more information regarding our critical accounting policies, please see "Note 2—Summary of Significant Accounting Policies" of the Notes to Consolidated 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 depreciate the building value over the estimated remaining life of the building. We determine the allocated value of other fixed assets based upon the replacement cost and depreciate such value over their estimated remaining useful lives. We determine the value of land either based on real estate tax assessed values in relation to the total value of the asset, 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.

### Loans and Other Amounts Receivable from Third Parties

We evaluate the collectibility of loans and other amounts receivable from third parties based on a number of factors, including (i) corporate and facility level financial and operations reports, (ii) compliance with the financial covenants set forth in the borrowing or lease agreement, (iii) the financial stability of the applicable borrower or tenant and any guarantor and (iv) the payment history of the borrower or tenant. Our level of reserves, if any, for loans and other amounts receivable from third parties fluctuates depending upon all of the factors previously mentioned.

### 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 Securities and Exchange Commission (the "Commission") Staff Accounting Bulletin 104: (i) the agreement has been fully executed and delivered; (ii) services have been rendered; (iii) the amount is fixed or determinable; and (iv) the collectibility is reasonably assured.

### 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. Such amounts and the recognition of such amounts in the financial statements are subject to significant estimates which may change in the future.

### 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, 2005 and 2004

	Year Ended December 31,		Change	
	2005	2004	\$	%
(dollars in thousands)				
<b>Revenues:</b>				
Rental income	\$324,719	\$232,076	\$ 92,643	39.9%
Interest income from loans receivable	5,001	2,958	2,043	69.1
Interest and other income	3,268	987	2,281	231.1
Total revenues	332,988	236,021	96,967	41.1
<b>Expenses:</b>				
Interest	105,581	66,105	39,476	59.7
Depreciation	87,848	48,865	38,983	79.8
Property-level operating expenses	2,576	1,337	1,239	92.7
General, administrative and professional fees	23,104	16,460	6,644	40.4
Stock-based compensation	1,971	1,664	307	18.4
Loss on extinguishment of debt	1,376	1,370	6	0.4
Net gain on swap breakage	(981)	—	(981)	NM
Net proceeds from litigation settlement	(15,909)	—	(15,909)	NM
Contribution to charitable foundation	2,000	—	2,000	NM
Total expenses	207,566	135,801	71,765	52.8
Income before net loss on real estate disposals and discontinued operations	125,422	100,220	25,202	25.1
Net loss on real estate disposals	(175)	—	(175)	NM
Income before discontinued operations	125,247	100,220	25,027	25.0
Discontinued operations	5,336	20,680	(15,344)	(74.2)
Net income	\$130,583	\$120,900	\$ 9,683	8.0%

NM – Not meaningful.

## Revenues

The increase in our 2005 rental income reflects (i) the recognition of \$85.9 million in additional rent relating to the properties acquired during 2005 (\$59.5 million relates to the Provident acquisition), the full year effect in 2005 of properties acquired during 2004 (see “Note 5—Acquisitions” of the Notes to Consolidated Financial Statements) and (ii) a \$6.7 million increase resulting from the 3.5 percent annual escalator under the Kindred Master Leases effective May 1, 2005. The rental income from Kindred includes \$2.3 million related to the amortization of deferred revenue recorded as a result of our receipt of (a) Kindred common stock and (b) \$4.5 million of additional future rent under the Kindred Master Leases in connection with Kindred's emergence from bankruptcy in 2001.

Interest income from loans receivable, which includes amortization of deferred fees, represents \$2.0 million of interest income in connection with a \$17.0 million mezzanine loan made to Trans Healthcare, Inc. (“THI”) in 2002, of which \$4.0 million remained outstanding at December 31, 2005, and \$2.0 million of interest income on the six first mortgage loans made in 2005. During 2005, we invested \$21.4 million in a portfolio of eight distressed mortgage loans, on which we earned interest of \$1.0 million. As of December 31, 2005, the balance on the distressed mortgage loans portfolio had been repaid in its entirety.

The increase in interest and other income primarily relates to \$1.3 million of fees associated with our investment in the portfolio of eight distressed mortgage loans described above and \$0.8 million related to the recovery in 2005 of a previously written-off receivable.

## Expenses

Interest expense includes \$3.9 million of amortized deferred financing costs for each of the years ended December 31, 2005 and 2004. Interest expense included in discontinued operations was \$0.6 million and \$1.1 million for the years ended December 31, 2005 and 2004, respectively. Total interest expense, including interest allocated to discontinued operations, increased \$39.0 million in 2005 over 2004, primarily due to a \$49.9 million increase from increased debt to fund acquisitions made during 2005, partially offset by a \$10.9 million decrease from lower effective interest rates. Our effective interest rate decreased to 7.6 percent for the year ended December 31, 2005 from 8.4 percent for the year ended December 31, 2004.

Depreciation expense increased primarily due to the properties acquired during 2005. See “Note 5—Acquisitions” of the Notes to Consolidated Financial Statements.

The increase in property-level operating expenses relates solely to a full year of activity for the seven medical office buildings acquired during 2004 and the acquisition of two medical office buildings in the first quarter of 2005.

The increase in general, administrative and professional fees is attributable to costs associated with growth in our asset base and 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.

In December 2005, we paid off our CMBS loan and incurred a loss from extinguishment of debt of \$1.4 million primarily related to the write-off of unamortized 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.

As a result of anticipated lower variable rate debt balances due to the payoff of our CMBS loan in December 2005, we entered into an agreement with the counterparty to our interest rate swap to reduce the notional amount of the swap to \$100.0 million from \$330.0 million for its remaining term in exchange for a payment to the counterparty of approximately \$2.3 million. In addition, we recognized \$3.3 million of a previously deferred gain recorded in connection with our 1999 transaction to shorten the maturity of a separate interest rate swap.

During the fourth quarter of 2005, we settled our previously disclosed litigation against Sullivan & Cromwell LLP and received net proceeds of \$15.9 million, after payment of expenses in connection with the settlement. See “Note 14—Litigation” of the Notes to Consolidated Financial Statements.

With \$2.0 million of the net proceeds received from the litigation settlement, we established and funded the Ventas Charitable Foundation, Inc. (the “Foundation”). The Foundation will be used to support charitable and philanthropic causes important to the communities in which we operate and to our employees.

## Discontinued Operations

The decrease in discontinued operations is a result of a lower net gain on the sale of properties in 2005. Discontinued operations in 2004 includes the net income of two properties sold, whereas the discontinued operations in 2005 includes only the net income from one property sold.

In 2005, we completed the sale of one facility for \$9.9 million in net cash proceeds and recognized a net gain on the sale of \$5.1 million. In addition, the tenant paid us lease termination fees approximating \$0.2 million. 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. The net gains and lease termination fees are included in discontinued operations for the respective years in which the dispositions occurred. See “Note 6—Dispositions” of the Notes to Consolidated Financial Statements.

## Years Ended December 31, 2004 and 2003

	Year Ended December 31,		Change	
	2004	2003	\$	%
(dollars in thousands)				
<b>Revenues:</b>				
Rental income	\$232,076	\$189,987	\$ 42,089	22.2%
Interest income from loans receivable	2,958	3,036	(78)	(2.6)
Interest and other income	987	1,696	(709)	(41.8)
Total revenues	236,021	194,719	41,302	21.2
<b>Expenses:</b>				
Interest	66,105	61,660	4,445	7.2
Depreciation	48,865	39,500	9,365	23.7
Property-level operating expenses	1,337	—	1,337	NM
General, administrative and professional fees	16,460	14,673	1,787	12.2
Stock-based compensation	1,664	1,759	(95)	(5.4)
Loss on extinguishment of debt	1,370	84	1,286	1,531.0
Net loss on swap breakage	—	5,168	(5,168)	NM
Reversal of contingent liability	—	(20,164)	20,164	NM
Interest on United States settlement	—	4,943	(4,943)	NM
Total expenses	135,801	107,623	28,178	26.2
Operating income	100,220	87,096	13,124	15.1
Gain on sale of Kindred common stock	—	9,039	(9,039)	NM
Income before discontinued operations	100,220	96,135	4,085	4.2
Discontinued operations	20,680	66,618	(45,938)	(69.0)
Net income	\$120,900	\$162,753	\$(41,853)	(25.7)%

NM - Not meaningful.

### Revenues

The increase in our 2004 rental income reflects (i) a \$10.4 million increase resulting from the 3.5 percent annual escalator under the 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 5—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 in 2001 and the receipt of \$4.5 million of additional future rent under the Kindred Master Leases.

Interest income from loans receivable represents interest income in connection with the loan to THI.

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

### Expenses

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 \$1.1 million and \$3.5 million for the years ended December 31, 2004 and 2003, respectively. Total interest expense, excluding interest on our 2000 settlement with the United States Department of Justice but including interest allocated to discontinued operations, increased \$2.0 million in 2004 over 2003, due primarily to a \$6.6 million increase related to the debt assumed in connection with our 2004 acquisitions of ElderTrust and certain facilities from Brookdale Living Communities, Inc., 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 our 1999 transaction to shorten the maturity of our previous interest rate 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.

Depreciation expense increased primarily due to the properties acquired during 2004. See "Note 5—Acquisitions" of the Notes to Consolidated Financial Statements.

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.

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.

As a result of anticipated lower variable rate debt balances due to the sale of ten facilities in December 2003, we entered into an agreement with the counterparty to our interest rate swap to break \$120.0 million of the then \$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.

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 11—Income Taxes” of the Notes to Consolidated Financial Statements.

No interest expense was incurred with respect to the United States settlement in 2004, as compared to \$4.9 million in 2003, due to full prepayment in 2003. See “Note 12—Commitments and Contingencies” of the Notes to Consolidated Financial Statements.

### 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, whereas discontinued operations in 2004 includes only the net income of two properties sold.

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 tenant 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 6—Dispositions” of the Notes to Consolidated Financial Statements.

### Funds from Operations

Our funds from operations (“FFO”) for the five years ended December 31, 2005 are summarized in the following table:

For the Years Ended December 31, (in thousands)	2005	2004	2003	2002	2001
Net income	\$130,583	\$120,900	\$162,753	\$65,706	\$50,566
Adjustments:					
Depreciation on real estate assets	87,406	48,477	39,216	38,012	37,855
Loss (gain) on real estate disposals	175	—	—	(64)	(290)
Other items:					
Discontinued operations					
Real estate depreciation – discontinued	153	373	2,443	3,879	4,049
Gain on sale of real estate	(5,114)	(19,428)	(51,781)	(23,450)	—
Funds from operations	\$213,203	\$150,322	\$152,631	\$84,083	\$92,180

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 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 our mortgage loans. 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, in September 2001, we entered into an interest rate swap agreement in the notional amount of \$450.0 million to hedge floating rate debt for the period between July 1, 2003 and June 30, 2008 (the "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 percent and receive LIBOR from the counterparty. In December 2003, due to our lower expected future variable rate debt balances as a result of the sale of ten facilities, we reduced the notional amount of the Swap for the period from December 11, 2003 through June 29, 2006 from \$450.0 million to \$330.0 million. In December 2005, due to our lower expected future variable rate debt balances as a result of our payoff of the CMBS loan, we further reduced the notional amount of the swap to \$100.0 million for the remaining term of the Swap. See "Note 8—Borrowing Arrangements" of the Notes to Consolidated Financial Statements. There are no collateral requirements under the Swap. As of December 31, 2005, the notional amount of the Swap was \$100.0 million, which is scheduled to expire on June 30, 2008.

To highlight the sensitivity of the Swap and our fixed rate debt to changes in interest rates, the following summary shows the effects of a hypothetical instantaneous change of 100 basis points (BPS) in interest rates as of December 31, 2005 and 2004:

	As of December 31,			
	2005		2004	
	Swap	Fixed Rate Debt	Swap	Fixed Rate Debt
(in thousands)				
Notional amount	\$100,000	N/A	\$330,000	N/A
Book value	N/A	\$1,594,322	N/A	\$582,251
Fair value <sup>(1)</sup>	(1,580)	1,765,805	(16,550)	635,990
Fair value reflecting change in interest rates: <sup>(1)</sup>				
–100 BPS	(3,847)	1,860,688	(25,489)	672,024
+100 BPS	634	1,677,903	(7,917)	602,641

(1) The change in fair value of the Swap was due to the reduction of notional amount in December 2005 and a general increase in interest rates. The change in fair value of fixed rate debt was due to the issuance of approximately \$600.0 million of fixed rate senior notes and the assumption of approximately \$427.3 million of fixed rate debt as a result of our acquisitions during the year ended December 31, 2005, partially offset by a general increase in interest rates.

N/A – Not applicable.

We paid \$6.9 million under the Swap during the year ended December 31, 2005. Assuming that interest rates do not change, we estimate that we will pay approximately \$0.6 million on the Swap during the year ending December 31, 2006.

We had approximately \$208.2 million and \$260.9 million of variable rate debt outstanding as of December 31, 2005 and 2004, respectively. The decrease in our outstanding variable rate debt from December 31, 2004 is primarily attributable to the refinancing of our CMBS loan with fixed rate senior notes, offset by additional mortgages assumed in connection with the Provident acquisition. The Swap currently effectively hedges \$100.0 million of our outstanding variable rate debt. Any amounts of variable rate debt in excess of \$100.0 million are subject to interest rate changes. However, pursuant to the terms of certain leases with one of our tenants, if interest rates increase on certain debt that we have totaling \$109.7 million as of December 31, 2005, our tenant is required to pay us additional rent (on a dollar-for-dollar basis) in an amount equal to the increase in interest expense resulting from the increased interest rates. Therefore, the increase in interest expense related to this debt is equally offset by an increase in additional rent due to us from the tenant. As of December 31, 2005, there was minimal cash flow impact from the fluctuation of interest rates on variable rate debt since we effectively hedged nearly all of our variable rate debt. The fair value of our fixed and variable rate debt is based on current interest rates at which similar borrowings could be made by us.

We may engage in additional hedging strategies in the future, depending on management's analysis of the interest rate environment and the costs and risks of such strategies. Our market risk sensitive instruments are not entered into for trading purposes.

### Credit Risk

As a result of our spin off of Kindred in May 1998 and the Provident acquisition in June 2005, we have a significant concentration of credit risk with Kindred and Brookdale Senior Living Inc. (together with its subsidiaries, "Brookdale Senior Living"). For the years ended December 31, 2005 and 2004, Kindred accounted for \$199.1 million, or 59.8 percent of our total revenues, and \$192.4 million, or 81.5 percent of our total revenues, respectively, and Brookdale Senior Living accounted for \$76.2 million, or 22.9 percent of our total revenues, for the year ended December 31, 2005. Accordingly, the financial condition of Kindred and Brookdale Senior Living and their 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 or Brookdale Senior Living to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to enlist and maintain patients in its facilities. We are dependent on Kindred and Brookdale Senior Living; Kindred's or Brookdale Senior Living'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 1A of our Annual Report on Form 10-K for the year ended December 31, 2005 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 2005, our principal sources of liquidity were proceeds from equity and debt issuances, cash flow from operations, borrowings under our revolving credit facility, 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 stockholders 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, 2005, we had cash and cash equivalents of \$1.6 million, escrow deposits and restricted cash of \$59.7 million, and unused availability of \$210.6 million under our revolving credit facility.

### CMBS Transaction

In December 2001, we raised \$225.0 million in gross proceeds from the completion of the CMBS transaction. In December 2005, we repaid all of our outstanding indebtedness under the CMBS loan in the outstanding principal amount of \$209.8 million at the payoff date with the net proceeds from our sale of the 2016 Senior Notes (as defined below) and borrowings under our revolving credit facility.

### Revolving Credit Facility

In September 2004, we entered into a new \$300.0 million revolving credit facility that replaced our previous revolving credit facility. The revolving credit facility bears interest at LIBOR plus a percentage ranging from 1.05 percent to 1.75 percent, depending on our consolidated leverage ratio. As of December 31, 2005, borrowings under the revolving credit facility bore interest at LIBOR plus 1.45 percent, resulting in a borrowing rate of approximately 5.83 percent. We also incur an annual facility fee of 25 basis points payable in quarterly installments. Initial borrowings under the revolving credit facility were used to refinance all revolver balances and pay off the \$60.0 million term loan outstanding under our previous revolving credit facility. The revolving credit facility matures in September 2007, but may be extended at our option and subject to the satisfaction of certain conditions, for a period of one year.

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, 2005, the outstanding principal balance under the revolving credit facility (excluding outstanding letters of credit of \$0.2 million) was \$89.2 million. Subject to the terms of the revolving credit facility, we have the option to increase our borrowing capacity (in the form of additional revolving loans and/or a term loan) to an amount not to exceed \$450.0 million.

As of December 31, 2005, the borrowing base under the revolving credit facility was \$300.0 million. The borrowing base is the sum of (i) 65 percent of the aggregate appraised property value of the borrowing base properties, plus (ii) 100 percent of amounts on deposit in certain cash collateral or pledged accounts. The borrowing base properties are currently comprised of 52 owned or leased real properties, which are also mortgaged to secure the revolving credit facility. As of December 31, 2005, the borrowing base properties had a net book value of \$114.3 million and were leased to Kindred pursuant to the Kindred Master Leases.

The revolving credit facility imposes various restrictive covenants on us. See "Note 8—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

### Senior Notes Offerings

In December 2005, we completed the offerings of \$200.0 million aggregate principal amount of 6½% Senior Notes due 2016 (the "2016 Senior Notes") of our subsidiaries, Ventas Realty, Limited Partnership and Ventas Capital Corporation (collectively, the "Issuers") at a half percent discount to par value.

In June 2005, we completed the offering of 6¼% Senior Notes due June 1, 2010 of the Issuers, in the aggregate principal amount of \$175.0 million (the "2010 Senior Notes"), and 7¼% Senior Notes due June 1, 2015 of the Issuers, in the aggregate principal amount of \$175.0 million (the "2015 Senior Notes").

In June 2005, we also completed the offering of \$50.0 million aggregate principal amount of 6¼% Senior Notes due 2014 (the "2014 Senior Notes") of the Issuers, which was in addition to the \$125.0 million aggregate principal amount of 2014 Senior Notes originally issued in October 2004. The additional \$50.0 million aggregate principal amount of the 2014 Senior Notes was issued at a one percent discount to par value. The additional \$50.0 million aggregate principal amount and the original \$125.0 million aggregate principal amount of the 2014 Senior Notes are governed by the same indenture.

In April 2002, we completed the offering of 8¼% 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"). 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, 2005, \$174.2 million principal amount of 2009 Senior Notes, \$175.0 million principal amount of 2010 Senior Notes, \$191.8 million principal amount of 2012 Senior Notes, \$175.0 million principal amount of 2014 Senior Notes, \$175.0 million principal amount of 2015 Senior Notes and \$200.0 million principal amount of 2016 Senior Notes (collectively, the "Senior Notes") were outstanding. We and certain of our subsidiaries have fully and unconditionally guaranteed the Senior Notes.

The Senior Notes are subject to a number of restrictive covenants. See "Note 8—Borrowing Arrangements" of the Notes to Consolidated Financial Statements.

Pursuant to registration rights agreements entered into in connection with the 2010 Senior Notes, 2015 Senior Notes and additional 2014 Senior Notes offerings, on October 28, 2005, we completed offers to exchange the 2010 Senior Notes, 2015 Senior Notes and additional 2014 Senior Notes with new series of notes that are registered under the Securities Act of 1933, as amended (the "Securities Act"), and are otherwise substantially identical to the original 2010 Senior Notes, 2015 Senior Notes and 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 offers.

Pursuant to the registration rights agreements entered into in connection with the 2016 Senior Notes offerings, during the first quarter of 2006, we filed a registration statement with respect to an offer to exchange the 2016 Senior Notes with a new series of notes that are registered under the Securities Act and are otherwise substantially identical to the original 2016 Senior Notes, except that certain transfer restrictions, registration rights and liquidated damages do not apply to the new notes. We will not receive any additional proceeds in connection with the exchange offer.

### Dividends

In order to continue to qualify as a REIT, we must make annual distributions to our stockholders of at least 90 percent of REIT taxable income (excluding net capital gain). We declared dividends greater than 100 percent of estimated taxable income for 2005 and intend to pay a dividend greater than 100 percent of taxable income for 2006.

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 percent distribution requirement, it is possible that from time to time we may not have sufficient cash or other liquid assets to meet the 90 percent 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 percent 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 our leased properties generally will be incurred by our tenants. Accordingly, we do not believe that we will incur any major expenditures in connection with these leased properties. After the terms of the leases expire, or in the event that the tenants are unable or unwilling to meet their obligations under the leases, 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 borrow funds may be restricted in certain circumstances by the terms of our revolving credit facility and the indentures governing the Senior Notes.



### Equity Offerings

In 2002, we filed and the Commission declared effective a shelf registration statement on Form S-3 relating to \$750.0 million aggregate offering price of common stock, preferred stock, subsidiary debt securities and related guarantees, depository shares and warrants.

In July 2005, we completed the sale of 3,247,000 shares of our common stock in an underwritten public offering pursuant to our shelf registration statement. We received \$97.0 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.

In March 2004, we completed the sale of 2,000,000 shares of our common stock in an underwritten public offering pursuant to our 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, 2005, approximately \$501.0 million of securities remained available for offering under the shelf registration statement.

### Other

During 2005 and 2004, we assumed facility-level mortgage debt in connection with certain property acquisitions, including the Provident and ElderTrust acquisitions. See "Note 5—Acquisitions" of the Notes to Consolidated Financial Statements. Outstanding facility-level mortgage debt was approximately \$622.3 million and \$100.5 million as of December 31, 2005 and 2004, respectively.

The 2003 Consolidated Statement of Income includes a \$4.9 million expense related to our early repayment of a prior year settlement agreement with the United States Department of Justice.

We received proceeds on the exercises of stock options in the amounts of \$6.8 million and \$17.7 million for the years ended December 31, 2005 and 2004, 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 1.3 million as of December 31, 2005, from 1.6 million and 2.6 million as of December 31, 2004 and 2003, respectively.

We generated net proceeds from our Distribution Reinvestment and Stock Purchase Plan of \$5.0 million and \$13.1 million for the years ended December 31, 2005 and 2004, respectively. In March 2005, we began offering a one percent 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 two percent 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 \$2.8 million as of December 31, 2005, down from \$3.2 million at December 31, 2004. The loans are payable over ten years beginning, in each case, on the date such loan was made. See "Note 16—Related Party Transactions" of the Notes to Consolidated Financial Statements.

### Cash Flows

#### Cash Flows from Operating Activities

Net cash provided by operating activities totaled \$223.8 million and \$150.0 million for the years ended December 31, 2005 and 2004, respectively. The increase in 2005 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 2005.

#### Cash Flows from Investing Activities

Net cash used in investing activities for the year ended December 31, 2005 was \$615.0 million. We invested \$589.6 million in real property, which was financed through borrowings under our revolving credit facility, the issuance of Senior Notes and cash on hand, and proceeds of \$11.3 million from the sale of facilities, of which \$9.9 million is being held in escrow for use in an Internal Revenue Code Section 1031 exchange. Additionally, we invested \$47.3 million in real estate loans and received proceeds from our real estate loans of \$20.3 million. Net cash used in investing activities for the year ended December 31, 2004 was \$298.7 million. We invested \$323.9 million in real property, which was financed through borrowings under our 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.

#### Cash Flows from Financing Activities

Net cash provided by financing activities totaled \$389.6 million for the year ended December 31, 2005. The proceeds included (i) \$600.0 million from the issuance of Senior Notes, (ii) \$102.0 million from the issuance of common stock, (iii) \$50.2 million from net borrowings under our revolving credit facility and (iv) \$6.8 million from the issuance of common stock upon the exercise of stock options. The uses primarily included (i) an aggregate principal payment of \$212.6 million on the CMBS loan to fulfill this debt obligation, (ii) aggregate principal payments on other mortgage obligations of \$19.4 million, (iii) \$125.8 million of cash dividend payments and (iv) a cash payment for the swap break of \$2.3 million.



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 Senior Notes, (ii) \$64.2 million from the issuance of common stock, (iii) \$39.0 million from net borrowings under our revolving credit facility and (iv) \$17.7 million from the issuance of common stock upon the exercise of stock options. The uses included (i) an aggregate principal payment of \$67.0 million on our previous term loan, the 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) a \$37.4 million cash payment in 2003 to settle the repurchase of 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 the exercise of stock options.

### 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.

	Total	Less than 1 year	1-3 years	3-5 years <sup>(3)</sup>	More than 5 years <sup>(4)</sup>
(in thousands)					
Long-term debt obligations <sup>(1)(2)</sup>	\$2,751,512	\$145,174	\$386,846	\$773,545	\$1,445,947
Obligations under interest rate swap <sup>(2)</sup>	1,580	581	999	—	—
Operating lease obligations	2,655	721	1,240	694	—
<b>Total</b>	<b>\$2,755,747</b>	<b>\$146,476</b>	<b>\$389,085</b>	<b>\$774,239</b>	<b>\$1,445,947</b>

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

(2) Interest on variable rate debt and obligations under the Swap were based on forward rates obtained as of December 31, 2005.

(3) Includes outstanding principal amounts of \$174.2 million of the 2009 Senior Notes and \$175.0 million of the 2010 Senior Notes.

(4) Includes outstanding principal amounts of \$191.8 million of the 2012 Senior Notes, \$175.0 million of the 2014 Senior Notes, \$175.0 million of the 2015 Senior Notes, and \$200.0 million of the 2016 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, 2005, we believe that the aggregate exposure under our third-party lease obligations was approximately \$21.6 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 12—Commitments and Contingencies" of the Notes to Consolidated Financial Statements.

## Management Report on Internal Control over Financial Reporting 2005

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 and Chief Financial 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, 2005 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, 2005, 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, 2005.

# Report of Independent Registered Public Accounting Firm 2005

## Stockholders and Board of Directors

### Ventas, Inc.

We have audited the accompanying consolidated balance sheets of Ventas, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. 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, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

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, 2005, 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 16, 2006, expressed an unqualified opinion thereon.

Chicago, Illinois  
February 16, 2006



## Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

## 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, 2005, 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, 2005, 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, 2005, 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, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005, and our report dated February 16, 2006, expressed an unqualified opinion thereon.

Chicago, Illinois  
February 16, 2006



# Consolidated Balance Sheets

## 2005

As of December 31,	2005	2004
(in thousands, except per share amounts)		
<b>Assets</b>		
Real estate investments:		
Land	\$ 295,363	\$ 147,327
Building and improvements	2,732,533	1,364,884
	3,027,896	1,512,211
Accumulated depreciation	(541,346)	(454,110)
Net real estate property	2,486,550	1,058,101
Loans receivable, net	39,924	13,031
Net real estate investments	2,526,474	1,071,132
Cash and cash equivalents	1,641	3,365
Escrow deposits and restricted cash	59,667	25,710
Deferred financing costs, net	17,581	13,550
Notes receivable – related parties	2,841	3,216
Other	30,914	9,962
<b>Total assets</b>	<b>\$2,639,118</b>	<b>\$1,126,935</b>
<b>Liabilities and stockholders' equity</b>		
Liabilities:		
Senior notes payable and other debt	\$1,802,564	\$ 843,178
Deferred revenue	10,540	12,887
Interest rate swap agreement	1,580	16,550
Accrued dividend	37,343	27,498
Accrued interest	14,418	8,743
Accounts payable and other accrued liabilities	74,960	27,461
Deferred income taxes	30,394	30,394
<b>Total liabilities</b>	<b>1,971,799</b>	<b>966,711</b>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10,000 shares authorized, unissued	—	—
Common stock, \$0.25 par value; authorized 180,000 shares; 103,523 and 85,131 shares issued at December 31, 2005 and 2004, respectively	25,927	21,283
Capital in excess of par value	692,650	208,903
Unearned compensation on restricted stock	(713)	(633)
Accumulated other comprehensive loss	(143)	(9,114)
Retained earnings (deficit)	(50,402)	(45,297)
	667,319	175,142
Treasury stock, 0 and 532 shares at December 31, 2005 and 2004, respectively	—	(14,918)
<b>Total stockholders' equity</b>	<b>667,319</b>	<b>160,224</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,639,118</b>	<b>\$1,126,935</b>

See accompanying notes.

# Consolidated Statements of Income

## 2005

For the Years Ended December 31,	2005	2004	2003
(in thousands, except per share amounts)			
Revenues:			
Rental income	\$324,719	\$232,076	\$189,987
Interest income from loans receivable	5,001	2,958	3,036
Interest and other income	3,268	987	1,696
Total revenues	332,988	236,021	194,719
Expenses:			
Interest	105,581	66,105	61,660
Depreciation	87,848	48,865	39,500
Property-level operating expenses	2,576	1,337	—
General, administrative and professional fees	23,104	16,460	14,673
Stock-based compensation	1,971	1,664	1,759
Loss on extinguishment of debt	1,376	1,370	84
Net (gain) loss on swap breakage	(981)	—	5,168
Net proceeds from litigation settlement	(15,909)	—	—
Contribution to charitable foundation	2,000	—	—
Reversal of contingent liability	—	—	(20,164)
Interest on United States settlement	—	—	4,943
Total expenses	207,566	135,801	107,623
Operating income	125,422	100,220	87,096
Gain on sale of Kindred common stock	—	—	9,039
Income before net loss on real estate disposals and discontinued operations	125,422	100,220	96,135
Net loss on real estate disposals	(175)	—	—
Income before discontinued operations	125,247	100,220	96,135
Discontinued operations	5,336	20,680	66,618
Net income	\$130,583	\$120,900	\$162,753
Earnings per common share:			
Basic:			
Income before discontinued operations	\$ 1.32	\$ 1.20	\$ 1.21
Net income	\$ 1.37	\$ 1.45	\$ 2.05
Diluted:			
Income before discontinued operations	\$ 1.31	\$ 1.19	\$ 1.20
Net income	\$ 1.36	\$ 1.43	\$ 2.03
Shares used in computing earnings per common share:			
Basic	95,037	83,491	79,340
Diluted	95,775	84,352	80,094

See accompanying notes.

# Consolidated Statements of Stockholders' Equity

## 2005

For the Years Ended December 31, 2005, 2004, and 2003	Common Stock Par Value	Capital in Excess of Par Value	Unearned Compensation on Restricted Stock	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Treasury Stock	Total
(in thousands, except per share amounts)							
Balance at January 1, 2003	\$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 swap	—	—	—	(8,226)	—	—	(8,226)
Reclassification adjustment for realized loss on interest rate swap 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 swap	—	—	—	(1,965)	—	—	(1,965)
Reclassification adjustment for realized loss on interest rate swap 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, 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
Comprehensive income:							
Net income	—	—	—	—	130,583	—	130,583
Unrealized gain on interest rate swap	—	—	—	5,754	—	—	5,754
Reclassification adjustment for realized loss on interest rate swap included in net income during the year	—	—	—	3,217	—	—	3,217
Comprehensive income							139,554
Dividends to common stockholders— \$1.44 per share	—	—	—	—	(135,688)	—	(135,688)
Proceeds from issuance of shares, net	4,561	485,285	—	—	—	—	489,846
Proceeds from issuance of shares for stock plans, net	83	(1,368)	—	—	—	13,048	11,763
Grant of restricted stock, net of forfeitures	—	(170)	(1,330)	—	—	1,870	370
Amortization of restricted stock grants	—	—	1,250	—	—	—	1,250
Balance at December 31, 2005	\$25,927	\$692,650	\$ (713)	\$ (143)	\$(50,402)	\$ —	\$ 667,319

See accompanying notes.

# Consolidated Statements of Cash Flows

## 2005

For the Years Ended December 31, (in thousands)	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 130,583	\$ 120,900	\$ 162,753
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation (including amounts in discontinued operations)	88,002	49,238	41,943
Amortization of deferred financing costs	3,891	3,895	4,095
Stock-based compensation	1,971	1,664	1,759
Reversal of contingent liability	—	—	(20,164)
Straight-lining of rental income	(14,287)	(2,462)	(108)
Gain on sale of Kindred common stock	—	—	(9,039)
Gain on sale of assets (including amounts in discontinued operations)	(4,939)	(19,428)	(51,781)
Loss on impairment of asset (included in discontinued operations)	—	—	845
Loss on extinguishment of debt	1,358	1,370	84
Amortization of deferred revenue	(3,497)	(2,577)	(3,707)
Net (gain) loss on swap breakage	(981)	—	5,168
Other	(2,698)	(2,016)	(212)
Changes in operating assets and liabilities:			
Decrease (increase) in escrow deposits and restricted cash	10,120	(8,965)	12,378
Increase in other assets	(5,396)	(102)	(1,892)
Increase (decrease) in accrued interest	5,675	2,922	(1,416)
Increase (decrease) in accounts payable and accrued and other liabilities	13,962	5,519	(3,340)
Net cash provided by operating activities	223,764	149,958	137,366
Cash flows from investing activities:			
Net investment in real estate property	(589,552)	(323,931)	(258)
Investment in loans receivable	(47,333)	—	—
Proceeds from real estate disposals	1,416	21,100	139,164
Proceeds from sale of Kindred common stock	—	—	20,223
Proceeds from loans receivable	20,274	3,580	205
Other	154	556	367
Net cash (used in) provided by investing activities	(615,041)	(298,695)	159,701
Cash flows from financing activities:			
Net change in borrowings under revolving credit facility	50,200	39,000	(59,900)
Proceeds from debt	600,000	125,000	—
Purchase of senior notes	—	—	(37,366)
Repayment of debt	(231,988)	(67,011)	(7,247)
Payment of swap breakage fee	(2,320)	—	(8,575)
Payment of deferred financing costs	(9,279)	(5,350)	(40)
Payment on the United States settlement	—	—	(46,647)
Issuance of common stock	101,964	64,206	—
Proceeds from stock option exercises	6,819	17,676	22,604
Cash distribution to stockholders	(125,843)	(103,523)	(80,247)
Net cash provided by (used in) financing activities	389,553	69,998	(217,418)
Net (decrease) increase in cash and cash equivalents	(1,724)	(78,739)	79,649
Cash and cash equivalents at beginning of year	3,365	82,104	2,455
Cash and cash equivalents at end of year	\$ 1,641	\$ 3,365	\$ 82,104
Supplemental disclosure of cash flow information:			
Interest paid including swap payments and receipts	\$ 100,362	\$ 62,530	\$ 70,342
Supplemental schedule of non-cash activities:			
Assets and liabilities assumed from acquisition:			
Real estate investments	\$ 931,571	\$ 103,603	\$ —
Escrow deposits and restricted cash	\$ 34,144	\$ 9,170	\$ —
Other assets acquired	\$ 1,560	\$ 206	\$ —
Debt	\$ 541,174	\$ 105,627	\$ —
Other liabilities	\$ 33,275	\$ 7,352	\$ —
Issuance of common stock	\$ 392,826	\$ —	\$ —

See accompanying notes.

# Notes to Consolidated Financial Statements

## 2005

### Note 1—Description of Business

Ventas, Inc. (together with its subsidiaries, unless otherwise indicated or except where the context otherwise requires, “we,” “us” or “our”) is a healthcare real estate investment trust (“REIT”) with a geographically diverse portfolio of healthcare-related and seniors housing facilities in the United States. As of December 31, 2005, this portfolio consisted of 200 skilled nursing facilities, 41 hospitals, 139 seniors housing facilities and other facilities in 42 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, 2005. We also have real estate loan investments relating to 30 healthcare-related and seniors housing facilities as of December 31, 2005.

We conduct substantially all of our business through our wholly owned subsidiaries, Ventas Realty, Limited Partnership (“Ventas Realty”), PSLT OP, L.P. (“PSLT OP”) and Ventas Finance I, LLC (“Ventas Finance”), and ElderTrust Operating Partnership (“ETOP”), in which we own substantially all 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 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”). We have accounted 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. 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, to 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 Securities and Exchange Commission (the “Commission”) Release No. 33-8568, we adopted the provisions of this accounting standard on January 1, 2006. We will 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. See “Note 10—Compensation Plans” regarding the effect the adoption of SFAS No. 123(R) will have on our consolidated financial statements.

#### Basis of Presentation

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

#### Accounting Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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 operate through one reportable segment: investment in real estate. Our primary business consists of financing, owning and leasing healthcare-related and seniors housing facilities and leasing or subleasing those facilities to third parties. 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 12—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 depreciate the building value over the estimated remaining life of the building. We determine the allocated value of other fixed assets based upon the replacement cost and depreciate such value over their estimated remaining useful lives. We determine the value of land either based on real estate tax assessed values in relation to the total value of the asset, 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.

Fixtures and equipment totaling \$151.3 million and \$12.2 million at December 31, 2005 and 2004, respectively, are included in buildings and improvements in the Consolidated Balance Sheets. Depreciation is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 50 years for buildings and improvements and three to ten years for fixtures and equipment.

#### **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, 2005 and 2004, we did not recognize an impairment loss.

#### **Loans Receivable**

Loans receivable are stated at the unpaid principal balance net of any 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 \$5.9 million and \$7.3 million at December 31, 2005 and 2004, respectively.

#### **Derivative Instruments**

As discussed in "Note 8—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, 2005, a \$0.1 million net unrealized loss on the derivatives is included in accumulated other comprehensive loss. Changes in fair value of derivative instruments that are not eligible for hedge accounting are reported in the Consolidated Statements of Income. See "Note 9—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.
- Loans receivable: The fair value of loans receivable is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.
- Notes receivable-related parties: The fair value of the notes receivable-related parties is 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.
- Senior notes payable and other debt: The fair values of borrowings under fixed rate agreements are estimated by discounting the future cash flows using current interest rates at which similar borrowings could be made by us.

#### **Comprehensive Income**

Comprehensive income includes net income and all other non-owner changes in stockholders' equity during a period including 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 Commission Staff Accounting Bulletin 104: (i) the agreement has been fully executed and delivered; (ii) services have been rendered; (iii) the amount is fixed or determinable; and (iv) the collectibility is reasonably assured.

## Federal Income Tax

As we have elected to be treated as a real estate investment trust under the applicable provisions of the Internal Revenue Code, no provision has been made for federal income tax purposes. See "Note 11—Income Taxes."

## Note 3—Revenues from Properties

Approximately 59.8 percent and 81.5 percent of our total revenues for the years ended December 31, 2005 and 2004, respectively, were derived from our master lease agreements with Kindred (the "Kindred Master Leases").

On June 7, 2005, we completed the acquisition of Provident Senior Living Trust ("Provident") (see "Note 5—Acquisitions"), which leased all of its properties to affiliates of Brookdale Living Communities, Inc. (together with its subsidiaries, "Brookdale") and Alterra Healthcare Corporation (together with its subsidiaries, "Alterra"). In September 2005, Brookdale was combined, through a series of mergers, with Alterra under a new holding company, Brookdale Senior Living Inc. (together with its subsidiaries, "Brookdale Senior Living"). As a result of this acquisition, Brookdale Senior Living became a significant source of our total revenues. Approximately 22.9 percent of our total revenues for the year ended December 31, 2005 was derived from our lease agreements with Brookdale Senior Living.

Kindred is subject to the reporting requirements of the Commission and is required to file with the Commission annual reports containing audited financial information and quarterly reports containing unaudited financial information. During the fourth quarter of 2005, Brookdale Senior Living completed the initial public offering of its common stock and, as a result, is now subject to the reporting requirements of the Commission and also required to file with the Commission annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Kindred and Brookdale Senior Living contained or referred to in this Annual Report is derived from filings made by Kindred or Brookdale Senior Living, as the case may be, with the Commission or other publicly available information, or has been provided to us by Kindred or Brookdale Senior Living. We have not verified this information either through an independent investigation or by reviewing Kindred's or Brookdale Senior Living's public filings. We have no reason to believe that this information is inaccurate in any material respect, but we cannot assure you that all of this information is accurate. Kindred's and Brookdale Senior Living's filings with the Commission can be found at the Commission's website at [www.sec.gov](http://www.sec.gov). We are providing this data for informational purposes only, and you are encouraged to obtain Kindred's and Brookdale Senior Living's publicly available filings from the Commission.

## 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. The properties leased to Kindred pursuant to each Kindred Master Lease are grouped into renewal bundles, with each bundle containing a varying number of properties. All properties within a bundle have primary terms ranging from ten to fifteen years, commencing May 1, 1998, and, provided certain conditions are satisfied, are subject to three five-year renewal terms.

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 percent over the prior period Base Rent if certain Kindred revenue parameters are met.

We have a one-time right under each Kindred Master Lease (the "Reset Right"), exercisable by notice (the "Reset Notices") 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 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. If we deliver the Reset Notices prior to July 19, 2006, the increased rent, if any, would be effective on July 19, 2006, and if we deliver the Reset Notices after July 19, 2006, the increased rent, if any, would be effective on the date the Reset Notices are delivered. The Reset Right applies to the original Kindred Master Leases on a lease-by-lease basis. If the Reset Right is exercised for any Kindred Master Lease, the annual escalations currently applicable to that particular Kindred Master lease may be altered or reduced, depending on market conditions at the time.

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. Subject to any adjustment resulting from our exercise of the Reset Right, this amount will escalate 3.5 percent annually in accordance with the Kindred Master Leases.

## Brookdale Senior Living Leases

Each of our leases with subsidiaries of Brookdale Senior Living is a triple-net lease pursuant to which the tenant is required to pay all insurance, taxes, utilities, maintenance and repairs related to the properties. In addition, the tenants are required to comply with the terms of the mortgage financing documents affecting the properties. Our leases with Brookdale have primary terms of fifteen years, commencing either January 28, 2004 (in the case of fifteen "Grand Court" facilities we acquired in early 2004) or October 19, 2004 (in the case of the facilities we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two ten-year renewal terms. Our leases with Alterra also have primary terms of fifteen years, commencing either October 20, 2004 or December 16, 2004 (both in the case of facilities we acquired in connection with the Provident acquisition), and, provided certain conditions are satisfied, are subject to two five-year renewal terms.

Under the terms of the Brookdale leases assumed in connection with the Provident acquisition, Brookdale is obligated to pay base rent, which escalates on January 1 of each year by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) three percent. Under the terms of the Brookdale leases with respect to the "Grand Court" facilities, Brookdale is obligated to pay base rent, which escalates on February 1 of each year by an amount equal to the greater of (i) two percent or (ii) 75 percent of the increase in the Consumer Price Index during the immediately preceding year. Under the terms of the Alterra leases, Alterra is obligated to pay base rent, which escalates either on January 1 or November 1 of each year, by an amount equal to the lesser of (i) four times the percentage increase in the Consumer Price Index during the immediately preceding year or (ii) 2.5 percent. See "Note 12—Commitments and Contingencies."

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 of our leases are as follows:

	Kindred	Brookdale Senior Living	Other	Total
(in thousands)				
2006	\$198,914	\$ 100,835	\$ 60,524	\$ 360,273
2007	198,914	103,590	60,567	363,071
2008	162,644	106,421	60,310	329,375
2009	144,509	109,332	59,522	313,363
2010	75,179	112,323	59,123	246,625
Thereafter	99,439	1,136,595	336,117	1,572,151
Total	\$879,599	\$1,669,096	\$636,163	\$3,184,858

#### Note 4—Concentration of Credit Risk

As of December 31, 2005, approximately 33.6 percent and 45.8 percent of our properties, based on their original cost, were operated by Kindred and Brookdale Senior Living, respectively, and approximately 59.5 percent and 27.5 percent of our properties, based on their original cost, were seniors housing facilities and skilled nursing facilities, respectively. Our remaining properties consist of hospitals, medical office buildings and other facilities. Our facilities are located in 42 states, with facilities in two states accounting for more than ten percent of total revenues for the year ended December 31, 2005. For the years ended December 31, 2004 and 2003, facilities in only one state accounted for more than ten percent of total revenues.

Because we lease a substantial portion of our properties to Kindred and Brookdale Senior Living and Kindred and Brookdale Senior Living are the primary source of our total revenues, their financial condition and ability and willingness to satisfy their obligations under their respective leases and certain other agreements with us will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. We cannot assure you that Kindred or Brookdale Senior Living will have sufficient assets, income and access to financing to enable them to satisfy their obligations under their respective leases and other agreements with us, and any inability or unwillingness on their part to do so would have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and on our ability to make distributions to our stockholders as required to maintain our status as a REIT.

#### Note 5—Acquisitions

The following is a summary of our more significant acquisitions in 2005 and 2004. The primary reason for these acquisitions was to invest in healthcare and seniors 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.

##### Provident

On June 7, 2005, we completed the acquisition of Provident in a transaction valued at approximately \$1.2 billion. Provident was formed as a Maryland real estate investment trust in March 2004 and owned seniors living properties located in the United States. Pursuant to the Provident acquisition, we acquired 68 independent and assisted living facilities in nineteen states comprised of approximately 6,819 residential living units, all of which are leased to affiliates of Brookdale and Alterra pursuant to triple-net leases with renewal options. As of December 31, 2005, the aggregate annualized contractual cash rent expected from the Provident properties was approximately \$85.7 million.

We funded the cash portion of the purchase price for the Provident acquisition, which was approximately \$231.0 million, and repaid all outstanding borrowings under Provident's credit facility at closing from a combination of net proceeds from the sale of \$350.0 million aggregate principal amount of senior notes issued by Ventas Realty and a wholly owned subsidiary, Ventas Capital Corporation (collectively, the "Issuers"), and borrowings under our revolving credit facility. Additionally, we issued approximately 15.0 million shares of our common stock and share equivalents to Provident equity holders as part of the purchase price for the Provident acquisition. We also assumed approximately \$459.4 million of property-level mortgage debt.

##### Other 2005 Acquisitions

During 2005, we acquired 23 seniors housing facilities, an adjacent parcel of land and one hospital for an aggregate purchase price of \$278.2 million, including assumed debt of \$74.4 million at the time of the acquisitions. The seniors housing facilities and the hospital are leased under triple-net leases, each having initial terms ranging from ten to fifteen years and initially providing aggregate, annual cash base rent of approximately \$23.9 million, subject to escalation as provided in the leases.

Also during 2005, we acquired three medical office buildings for an aggregate purchase price of \$13.0 million, including assumed debt of \$7.3 million at the time of the acquisitions. These buildings are leased to various tenants under leases having various remaining terms and initially providing aggregate, annual cash base rent of approximately \$1.7 million, subject to escalation as provided in the leases. We have engaged third parties to manage the operations of the medical office buildings.

## 2004 Acquisitions

In February 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 eighteen facilities to our portfolio. The ElderTrust properties are leased to various operators under leases having remaining terms primarily ranging from four to eleven years and initially providing 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.

During 2004, we acquired fifteen 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 pursuant to a master lease containing ten properties and five separate single facility leases, all of which are triple-net leases guaranteed by Brookdale having an initial term of fifteen years and initially providing aggregate, annual cash base rent of approximately \$14.5 million, subject to escalation as provided in the leases.

Additionally, during 2004 we acquired four seniors 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 ten to fifteen years and providing aggregate, annual cash base rent of approximately \$8.9 million, subject to escalation as provided in the leases.

Also during 2004, we 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 third parties to manage the operations of the medical office buildings.

## Estimated Fair Value

The transactions completed during the year ended December 31, 2005 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.

	Provident	Other	Total
(in thousands)			
Land	\$ 116,250	\$ 32,755	\$ 149,005
Buildings and improvements	1,113,640	258,453	1,372,093
Escrow deposits and restricted cash	31,996	2,148	34,144
Other assets	1,506	54	1,560
Total assets acquired	1,263,392	293,410	1,556,802
Notes payable and other debt	459,437	81,737	541,174
Other liabilities	28,362	4,913	33,275
Total liabilities assumed	487,799	86,650	574,449
Net assets acquired	775,593	206,760	982,353
Total equity issued	(392,826)	—	(392,826)
Total cash used	\$ 382,767	\$206,760	\$ 589,527

## Unaudited Pro Forma

The following table illustrates the effect on net income and earnings per share as if we had consummated our 2005 and 2004 acquisitions and our 2005 and 2004 equity offerings as of the beginning of each of the three years ended December 31, 2005:

For the Year Ended December 31,	2005	2004	2003
(in thousands, except per share amounts)			
Revenues	\$390,722	\$379,111	\$369,954
Expenses	263,693	275,542	271,156
Net income from continuing operations	126,854	103,569	107,837
Net income	132,190	124,249	174,455
Earnings per common share:			
Basic:			
Net income from continuing operations	\$ 1.23	\$ 1.01	\$ 1.08
Net income	\$ 1.28	\$ 1.22	\$ 1.75
Diluted:			
Net income from continuing operations	\$ 1.22	\$ 0.98	\$ 1.26
Net income	\$ 1.27	\$ 1.17	\$ 2.04
Shares used in computing earnings per common share:			
Basic	103,153	102,073	99,586
Diluted	103,891	106,181	85,341

**Note 6—Dispositions**

In 2005, we completed the sale of one seniors housing facility for approximately \$9.9 million in net cash proceeds and recognized a net gain on the sale of approximately \$5.1 million. In addition, the tenant paid us a lease termination fee approximating \$0.2 million. These net proceeds are being held in escrow for use in an Internal Revenue Code Section 1031 exchange. 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.

As of December 31, 2004, 2003 and 2002, the net book value of the facilities sold and held for sale during 2005, 2004 and 2003 was \$5.3 million, \$3.2 million and \$91.7 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, 2005, 2004 and 2003:

For the Year Ended December 31, (in thousands)	2005	2004	2003
Revenues:			
Rental income	\$ 837	\$ 2,227	\$11,510
Interest and other income	165	500	10,116
Expenses:			
Interest	627	1,102	3,501
Depreciation	153	373	2,443
Loss on impairment of asset held for sale	—	—	845
Income before gain on sale of real estate	222	1,252	14,837
Gain on sale of real estate	5,114	19,428	51,781
Discontinued operations	\$5,336	\$20,680	\$66,618

**Note 7—Loans Receivable**

During 2005, we extended three first mortgage loans in the aggregate principal amount of \$25.9 million. The loans accrue interest at a rate of nine percent per annum and provide for monthly amortization of principal with balloon payment maturity dates ranging from February to April 2010. Each loan is guaranteed by an affiliate of the borrower and its two principals.

Also during 2005, we invested in a portfolio of eight distressed mortgage loans with eight separate borrowers for an aggregate purchase price of \$21.4 million. As of December 31, 2005, our investment in the portfolio was satisfied by the buy-out of the applicable distressed mortgage loans in an amount equal to our investment in these loans. In conjunction with these buy-outs, we extended three first mortgage loans in an aggregate principal amount of \$10.5 million. The new first mortgage loans accrue interest at a rate of nine percent per annum and provide for monthly amortization of principal with balloon payment maturity dates ranging from July to December 2010. These three first mortgage loans are also guaranteed by a third party and its two principals.

Our six first mortgage loans have a one percent exit fee that was paid at the date of issuance and is being deferred and amortized over the term of the loan. The aggregate unamortized balance of these deferred fees as of December 31, 2005 was \$0.3 million.

During 2002, we 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 \$50.0 million first mortgage loan and a \$17.0 million mezzanine loan. Following a sale of the first mortgage loan in December 2002, our investment in THI was \$70.0 million.

As part of the THI sale-leaseback, we purchased five properties and are 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 ten years, provides for initial annual base rent of \$6.0 million, subject to annual escalation if THI meets specified revenue parameters.

As of December 31, 2005, the balance of the mezzanine loan receivable was approximately \$4.0 million. The THI mezzanine loan bears interest, inclusive of upfront fees, at eighteen percent per annum and is secured by equity pledges in entities that own and operate certain healthcare facilities, plus liens on other healthcare properties, and interests in certain additional properties. In November 2005, THI sold the physical therapy business also securing the THI mezzanine loan and the approximately \$5.4 million of proceeds from the sale were applied to repayment of the loan. The THI mezzanine loan matured on November 15, 2005. We have entered into a series of forbearance agreements with THI regarding terms in the THI mezzanine loan documents and the THI master lease. The current forbearance agreement with THI expires on February 28, 2006 and the principal balance of the mezzanine loan as of February 28, 2006 is less than \$3.0 million. THI remains current on all lease payments under its lease and has made continuous monthly principal and interest payments under the mezzanine loan. We cannot assure you that we will enter into additional forbearance agreements with THI or that THI will pay us all amounts due under the mezzanine loan or will continue to make all lease payments under the THI master lease.

## Note 8—Borrowing Arrangements

The following is a summary of our long-term debt and certain interest rate and maturity information as of December 31, 2005 and 2004:

As of December 31, (in thousands)	2005	2004
Revolving credit facility	\$ 89,200	\$ 39,000
6½% Senior Notes due 2016	200,000	—
6¼% Senior Notes due 2010	175,000	—
7½% Senior Notes due 2015	175,000	—
6% Senior Notes due 2014	175,000	125,000
8% Senior Notes due 2009	174,217	174,217
9% Senior Notes due 2012	191,821	191,821
CMBS loan	—	212,612
Other mortgage loans	622,326	100,528
	<b>\$1,802,564</b>	<b>\$843,178</b>

### CMBS Loan

During 2001, we raised \$225.0 million in gross proceeds from the completion of the CMBS transaction.

In December 2005, we repaid all of our outstanding indebtedness under the CMBS loan in the outstanding principal amount of \$209.8 million at the payoff date with the net proceeds from our sale of the 2016 Senior Notes (as defined below) and borrowings under our revolving credit facility.

### Revolving Credit Facility

In September 2004, we entered into a \$300.0 million senior secured revolving credit facility, which replaced our previous revolving credit facility. The revolving credit facility expires in September 2007. Subject to the satisfaction of 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 percent to 1.75 percent depending on our consolidated leverage ratio. The applicable percentage was 1.45 percent at December 31, 2005.

The previous credit facility included revolving borrowings bearing interest at a fluctuating LIBOR-based rate and a term loan. The term loan bore interest at LIBOR plus 2.50 percent and was scheduled to mature in April 2007. Ventas Realty is the borrower and we are the guarantor 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, 52 real properties owned or leased by Ventas Realty are mortgaged to secure the revolving credit facility. As of December 31, 2005, the net book value of these properties was \$114.3 million. As of December 31, 2005, the borrowing base under the revolving credit facility was \$300.0 million, the aggregate principal balance of outstanding obligations (excluding outstanding letters of credit of \$0.2 million) was \$89.2 million and the remaining availability was \$210.6 million.

We incurred losses on extinguishment of debt in the amount of \$1.4 million for each of the years ended December 31, 2005 and 2004, representing the write-off of unamortized deferred financing costs related to the CMBS loan and our previous revolving credit facility.

The revolving credit facility imposes various restrictions on us, including restrictions pertaining to: (i) the incurrence of additional indebtedness; (ii) liens; (iii) certain dividends, distributions and other payments (the sum of all restricted payments made by us after April 17, 2002 cannot exceed 95 percent of our aggregate cumulative funds from operations ("FFO")); (iv) mergers, sales of assets and other transactions; (v) the maintenance of minimum consolidated adjusted net worth and certain consolidated leverage and fixed charge coverage ratios; (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 usual and customary events of default and is, among other things, cross-defaulted with certain other indebtedness and obligations of Ventas Realty.

### Senior Notes

In December 2005, we completed the offerings of \$200.0 million aggregate principal amount of 6½% Senior Notes due 2016 (the "2016 Senior Notes") of the Issuers at a half percent discount to par value.

In June 2005, we completed the offering of 6¼% Senior Notes due 2010 of the Issuers, in the aggregate principal amount of \$175.0 million (the "2010 Senior Notes"), and 7½% Senior Notes due 2015 of the Issuers, in the aggregate principal amount of \$175.0 million (the "2015 Senior Notes"). In June 2005, we also completed the offering of \$50.0 million aggregate principal amount of 6% Senior Notes due 2014 (the "2014 Senior Notes") of the Issuers, which was in addition to the \$125.0 million aggregate principal amount of 2014 Senior Notes originally issued in October 2004. The additional \$50.0 million aggregate principal amount of the 2014 Senior Notes was issued at a one percent discount to par value. The additional \$50.0 million aggregate principal amount and the original \$125.0 million aggregate principal amount of the 2014 Senior Notes are governed by the same indenture.

In April 2002, we completed the offering of 8% Senior Notes due 2009 of the Issuers, in the aggregate principal amount of \$175.0 million (the "2009 Senior Notes"), and 9% Senior Notes due 2012 of the Issuers, in the aggregate principal amount of \$225.0 million (the "2012 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.

The 2016 Senior Notes, 2010 Senior Notes, 2015 Senior Notes, 2014 Senior Notes, 2009 Senior Notes, and 2012 Senior Notes (collectively, 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 their respective 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.

The Issuers may redeem the 2016 Senior Notes, in whole at any time or in part from time to time, (i) prior to June 1, 2011 at a redemption price equal to 100 percent of the principal amount thereof, plus a make-whole premium as described in the applicable indenture and (ii) on or after June 1, 2011 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, at any time prior to June 1, 2009, the Issuers may redeem up to 35 percent of the aggregate principal amount of the 2016 Senior Notes with the net cash proceeds from certain equity offerings at a redemption price equal to 106.5 percent of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date.

The Issuers may redeem the 2010 Senior Notes and the 2015 Senior Notes, in whole at any time or in part from time to time, prior to June 1, 2010 at a redemption price equal to 100 percent of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date and a make-whole premium as described in the applicable indenture. The Issuers may also redeem the 2015 Senior Notes, in whole at any time or in part from time to time, on or after June 1, 2010 at varying redemption prices set forth in the applicable indenture, plus accrued and unpaid interest thereon to the redemption date. In addition, at any time prior to June 1, 2008, the Issuers may redeem up to 35 percent of the aggregate principal amount of either or both of the 2010 Senior Notes and 2015 Senior Notes with the net cash proceeds from certain equity offerings at redemption prices equal to 106.750 percent and 107.125 percent, respectively, of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon to the redemption date.

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 percent of the principal amount thereof, plus a make-whole premium as 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, at any time prior to October 15, 2007, the Issuers may redeem up to 35 percent of the aggregate principal amount of the 2014 Senior Notes with the net cash proceeds from certain equity offerings at a redemption price equal to 106.625 percent of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date.

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 percent of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date and a make-whole premium as described in the applicable indenture.

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 percent 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 percent 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 percent of the Restricted Group's unsecured debt.

#### **Other Mortgages**

At December 31, 2005, we had outstanding 50 mortgage loans that we assumed in connection with various acquisitions. Outstanding principal balances on these loans ranged from \$0.4 million to \$60.9 million as of December 31, 2005. The loans bear interest at fixed rates ranging from 5.6 percent to 8.5 percent per annum, except with respect to nine loans with outstanding principal balances ranging from \$4.5 million to \$32.0 million, which bear interest at the lender's variable rates, ranging from 3.52 percent to 7.25 percent per annum as of December 31, 2005. The fixed rate debt bears interest at a weighted average annual rate of 7.09 percent and the variable rate debt bears interest at a weighted average annual rate of 4.11 percent as of December 31, 2005. The loans had a weighted average maturity of ten years as of December 31, 2005.



### Scheduled Maturities of Borrowing Arrangements

As of December 31, 2005, our indebtedness has the following maturities:

(in thousands)

2006	\$ 15,674
2007	104,836
2008	32,983
2009	315,584
2010	265,763
Thereafter	1,067,724
	<hr/> \$1,802,564 <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 our net income or financial position in the future from the use of derivatives.

In 1998, we entered into an interest rate swap in the notional amount of \$800.0 million (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.

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 percent and receive LIBOR from the counterparty to the agreement. The 2003-2008 Swap is treated as a cash flow hedge. In December 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 reduce the notional amount of the 2003-2008 Swap to \$330.0 million 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.

In December 2005, we refinanced our existing variable rate CMBS loan with the issuance of fixed rate 2016 Senior Notes, thereby reducing our expected future variable rate debt balances. Accordingly, we entered into an agreement with the counterparty to further reduce the notional amount of the 2003-2008 Swap to \$100.0 million for its remaining term in exchange for a payment from us of approximately \$2.3 million. This partial swap breakage cost and \$3.3 million of the deferred gain were recognized as a net gain of approximately \$1.0 million in the Consolidated Statement of Income for the year ended December 31, 2005.

Amortization of the deferred gain in accumulated other comprehensive income was \$2.2 million and \$2.3 million for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, the remaining deferred gain in accumulated other comprehensive income was \$1.4 million, which will continue to be amortized through December 2007.

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, 2005, 2004 and 2003 were \$6.9 million, \$13.3 million and \$19.2 million, respectively. Assuming no changes in interest rates, we estimate that approximately \$0.6 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 and 2003, \$0.5 million and \$0.3 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. No amount was reflected as interest expense for the year ended December 31, 2005 as we anticipated our variable rate debt balances to approximate the \$100.0 million notional amount of the 2003-2008 Swap.

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 at December 31, 2005 was \$100.0 million and is scheduled to expire on June 30, 2008.

At December 31, 2005, the 2003-2008 Swap was reported at its fair value of \$1.6 million in the liabilities section of the Consolidated Balance Sheet. The offsetting entry is reported as a deferred loss in accumulated other comprehensive loss.

**Note 9—Fair Values of Financial Instruments**

As of December 31, 2005 and 2004, the carrying amounts and fair values of our financial instruments were as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Cash and cash equivalents	\$ 1,641	\$ 1,641	\$ 3,365	\$ 3,365
Loans receivable	39,924	46,008	13,031	13,031
Notes receivable-related parties	2,841	2,851	3,216	3,147
Interest rate swap agreement	(1,580)	(1,580)	(16,550)	(16,550)
Senior notes payable and other debt	(1,802,564)	(1,970,711)	(843,178)	(896,840)

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 10—Compensation Plans****Stock Options and Restricted Stock**

We have five plans under which options to purchase common stock and/or shares of restricted stock have been, or may be, granted to officers, employees and non-employee 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, the Directors Stock Purchase Plan and the 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. As of December 31, 2005, options for 1,303,420 shares had been granted to eligible participants and remained outstanding under the Plans.

We have also granted options and restricted stock to certain officers, employees and non-employee directors outside of the Plans. These options and shares of restricted stock 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, 2005, options for 38,000 shares had been granted outside of the Plans to certain employees and non-employee directors and remained outstanding.

We granted 70,127, 68,271 and 157,934 shares of restricted stock during the years ended December 31, 2005, 2004 and 2003, respectively. The market value of these 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 2005 and 2004 and \$1.3 million in 2003.

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. The number of shares reserved and the number of shares available for future grants or issuance under these plans as of December 31, 2005 are as follows:

- 2000 Incentive Compensation Plan (Employee Plan) - 5,620,000 shares are reserved for grants to be issued to employees and, as of December 31, 2005, 883,248 shares were available for future grants. The 2000 Incentive Compensation Plan (Employee Plan) expires on December 31, 2006 and no additional grants thereunder will be permitted after that date.
- 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, and, as of December 31, 2005, 500,000 shares were available for future issuance.
- 2004 Stock Plan for Directors - 200,000 shares are reserved for grants or issuance to the chairman of the board and non-employee directors and, as of December 31, 2005, 176,750 shares were available for future grants or issuance. The 2004 Stock Plan for Directors expires on December 31, 2006 and no additional grants thereunder will be permitted after that date.
- 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, and, as of December 31, 2005, 164,278 shares were available for future issuance.
- 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, and, as of December 31, 2005, 488,512 shares were available for future issuance.

No additional grants are permitted under the 1987 Incentive Compensation Program (Employee Plan), 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, 2005, we had reserved 65,159 shares for issuance under these Plans.



The following is a summary of stock option activity in 2005, 2004 and 2003:

#### A. 2005 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	1,617,769	\$ 3.3125 – \$25.1700	\$14.1778
Options granted	338,128	24.9300 – 27.0900	25.2693
Options exercised	(606,444)	6.7500 – 25.1700	11.2443
Options canceled	(8,033)	13.7356 – 25.4400	22.4613
Outstanding at end of year	1,341,420	3.3125 – 27.0900	18.2571
Exercisable at end of year	992,778	\$ 3.3125 – \$27.0900	\$16.1097

#### B. 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

#### C. 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

A summary of stock options outstanding at December 31, 2005 follows:

Range of Exercise Prices	Outstanding as of December 31, 2005	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable as of December 31, 2005	Weighted Average Exercise Price
\$ 3.3125 to \$ 8.0000	34,757	4.6	\$ 5.2625	34,757	\$ 5.2625
\$ 8.0001 to \$13.7400	533,117	6.0	11.8372	526,119	11.8456
\$13.7401 to \$18.6200	71,144	2.4	15.8951	71,144	15.8951
\$18.6201 to \$25.1700	515,813	7.8	23.4595	304,471	22.9942
\$25.1701 to \$33.1250	186,589	9.0	25.5393	56,287	25.6963
	1,341,420	6.9	\$18.2571	992,778	\$16.1097

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 granted during the years ended December 31, 2005, 2004 and 2003 was \$854,300, \$824,700 and \$235,500, 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.

For the Year Ended December 31, (in thousands, except per share amounts)	2005	2004	2003
Net income, as reported	\$130,583	\$120,900	\$162,753
Add: Stock-based employee compensation expense included in reported net income	1,971	1,664	1,759
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,872)	(2,567)	(2,070)
Pro forma net income	\$129,682	\$119,997	\$162,442
Earnings per share:			
Basic – as reported	\$ 1.37	\$ 1.45	\$ 2.05
Basic – pro forma	\$ 1.36	\$ 1.44	\$ 2.05
Diluted – as reported	\$ 1.36	\$ 1.43	\$ 2.03
Diluted – pro forma	\$ 1.36	\$ 1.42	\$ 2.03

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:

	2005	2004	2003
Risk-free interest rate	4.5%	4.5%	4.0%
Dividend yield	6.61%	7.4%	9.0%
Volatility factors of the expected market price for our common stock	20.29%	17.5%	25.4%
Weighted average expected life of options	10 years	10 years	9 years

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.

In December 2004, FASB issued SFAS No. 123(R), which is a revision to SFAS No. 123 and requires all share-based payments to employees, including stock option grants, to be recognized in the income statement based on their fair values. On January 1, 2006, we adopted SFAS No. 123(R) and are now recognizing compensation cost for all share-based payments to employees granted after that date and for all awards previously granted that remained unvested on that date. While the effect of adoption cannot be predicted at this time because it will depend on levels of share-based payments granted in the future, 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 set forth above.

#### Employee and Director Stock Purchase Plan

During 2005, we implemented the Ventas Employee and Director Stock Purchase Plan ("ESPP") under which our employees and directors may purchase shares of our common stock at a discount. Pursuant to the terms of the ESPP, on each purchase date, participants may purchase shares of common stock at a price not less than 90 percent of the market price on that date, with respect to the employee tax-favored portion of the plan, and not less than 95 percent of the market price on that date, with respect to the additional employee and director portion of the plan. We have reserved 2,500,000 shares for issuance under the ESPP. As of December 31, 2005, 4,530 shares had been purchased under the ESPP and 2,495,470 shares were available for future issuance.

#### Employee Benefit Plan

We maintain a 401(K) plan that allows for eligible employees to defer compensation subject to certain limitations imposed by the Internal Revenue Code. We make a contribution for each qualifying employee of up to three percent of his or her salary, subject to limitations, regardless of the employee's individual contribution. During 2005, 2004 and 2003, our contributions were approximately \$78,000, \$62,000 and \$62,000, respectively.

**Note 11—Income Taxes**

We have elected to be taxed as a REIT under the Internal Revenue Code commencing with the year 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, 2005, 2004 and 2003, our tax treatment of distributions was as follows:

	2005	2004	2003
Tax treatment of distributions:			
Ordinary income	\$ 1.4050	\$ 1.1164	\$0.8025
Long-term capital gain	—	0.1241	—
Unrecaptured section 1250 gain	—	0.0020	—
Distribution reported for 1099-DIV purposes	1.4050	1.2425	0.8025
Add: Dividend declared in current year and taxable in following year	0.3600	0.3250	0.2675
Less: Dividend declared in prior year and taxable in current year	(0.3250)	(0.2675)	—
Distributions declared per common share outstanding	\$ 1.4400	\$ 1.3000	\$1.0700

No net provision for income taxes has been recorded in the Consolidated Financial Statements for the years ended December 31, 2005 and 2004 due to our belief that we qualified as a REIT and the distribution of more than 100 percent of our 2005 and 2004 taxable income as a dividend.

We believe we have met the annual distribution requirement by payment of at least 90 percent of our estimated taxable income for 2005, 2004 and 2003.

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 and the reported amount of our assets and liabilities for federal income tax purposes was approximately \$489.5 million less than the book bases of those assets and liabilities for financial reporting purposes for the year ended December 31, 2005. For the year ended December 31, 2004, the net difference between tax bases and the reported amount of our assets and liabilities for federal income tax purposes was \$91.9 million more than the book bases of those assets and liabilities for financial reporting purposes.

We made no income tax payments for the years ended December 31, 2005, 2004 and 2003.

We potentially remain subject to corporate level taxes for any asset dispositions during the ten-year period immediately after the assets were owned by a C corporation (either prior to our REIT election, through stock acquisition or merger) ("built-in gains tax"). The amount of income potentially subject to this special corporate level tax is generally equal to the lesser of (i) the excess of the fair value of the asset over its adjusted tax basis as of the date it became a REIT asset or (ii) the actual amount of gain. 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, 2005 and 2004 reflects a previously established liability to be utilized for any built-in gains tax incurred.

In 2003, we reported an increase of approximately \$20.2 million to our operating results, reflecting the reversal of a previously recorded contingent liability. This contingent liability was previously recorded on the Consolidated Balance Sheet to take into account the uncertainties surrounding the outcome of the Internal Revenue Service ("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, 2005 and 2004, the total contingent liability was \$1.8 million.

We have a net operating loss carryforward of \$86.2 million at December 31, 2005. 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, 2005 and 2004. 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 we cannot assure you as to the outcome of these matters.

## **Note 12—Commitments and Contingencies**

### **Assumption of Certain Operating Liabilities and Litigation**

In connection with our spin off of Kindred in 1998, Kindred agreed, among other things, to assume all liabilities and to indemnify, defend and hold us harmless from and against certain losses, claims and litigation arising out of the ownership or operation of the healthcare operations or any of the assets transferred to Kindred in the spin off, including without limitation all claims arising out of the third-party leases and third-party guarantees assigned to and assumed by Kindred at the time of the spin off. Under Kindred's plan of reorganization, Kindred assumed and agreed to fulfill these obligations. The total aggregate remaining minimum rental payments under the third-party leases was approximately \$21.6 million as of December 31, 2005 and we believe that we had no material exposure under the third-party guarantees.

Similarly, in connection with Provident's acquisition of certain Brookdale-related and Alterra-related entities in 2004 and our subsequent acquisition of Provident, Brookdale and Alterra agreed, among other things, to indemnify and hold Provident (and, as a result of the Provident acquisition, us) harmless from and against certain liabilities arising out of the ownership or operation of such entities prior to their acquisition by Provident.

There can be no assurance that Kindred, Brookdale and Alterra will have sufficient assets, income and access to financing to enable them to satisfy, or that they will be willing to satisfy, their respective obligations under these arrangements. If Kindred, Brookdale or Alterra does not satisfy or otherwise honor its obligations to indemnify, defend and hold us harmless under its respective contractual arrangements with us, then we may be liable for the payment and performance of such obligations and may have to assume the defense of such claims or litigation, which could 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.

### **Kindred Common Stock**

In connection with Kindred's emergence from bankruptcy in April 2001, we received 1,498,500 shares of Kindred common stock, representing not more than 9.99 percent of the then issued and outstanding common stock of Kindred. 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.

Prior to 2003, we sold 577,686 shares of our Kindred common stock. During the year ended December 31, 2003, we sold the remaining 920,814 shares of Kindred common stock that we held and recognized a gain of \$9.0 million. We have not held any Kindred common stock since 2003.

### **Settlement of United States Claims**

The 2003 Consolidated Statement of Income includes a \$4.9 million expense related to our early repayment of the obligations due under our prior year settlement agreement with the United States Department of Justice (the "United States settlement").

### **Brookdale Leases**

Subject to certain limitations and restrictions, if during the first six years of the initial term of our Brookdale leases assumed in connection with the Provident acquisition we, either voluntarily or at Brookdale's request, obtain new mortgage debt or refinance existing mortgage debt on property covered by a Brookdale lease, then we may be required to pay Brookdale the net proceeds from any such mortgage debt financing or refinancing. Also, subject to certain limitations and conditions, Brookdale may request that we obtain new mortgage debt or refinance existing mortgage debt on the property covered by the Brookdale leases, and we have agreed to use commercially reasonable efforts to pursue any such financing or refinancing from the holder of the then existing mortgage debt on the applicable Brookdale property. In connection with any such financing or refinancing, the rent for the applicable Brookdale property will be increased using a recomputed lease basis increased by an amount equal to the net financed proceeds paid to Brookdale plus any fees, penalties, premiums or other costs related to such financing or refinancing. In addition, if the monthly debt service on any financed or refinanced proceeds paid to Brookdale exceeds the rent increase attributable to those financed or refinanced proceeds, then Brookdale is required to pay the excess. In addition, under certain circumstances, Brookdale will also be required to pay additional amounts relating to increases in debt service and other costs relating to any such financing or refinancing.

**Note 13—Earnings Per Share**

The following table shows the amounts used in computing basic and diluted earnings per share:

For the Year Ended December 31, (in thousands, except per share amounts)	2005	2004	2003
Numerator for basic and diluted earnings per share:			
Income before discontinued operations	\$125,247	\$100,220	\$ 96,135
Discontinued operations	5,336	20,680	66,618
Net income	\$130,583	\$120,900	\$162,753
Denominator:			
Denominator for basic earnings per share—weighted average shares	95,037	83,491	79,340
Effect of dilutive securities:			
Stock options	724	825	715
Time vesting restricted stock awards	14	36	39
Dilutive potential common stock	738	861	754
Denominator for diluted earnings per share—adjusted weighted average	95,775	84,352	80,094
Basic earnings per share			
Income before discontinued operations	\$ 1.32	\$ 1.20	\$ 1.21
Discontinued operations	0.05	0.25	0.84
Net income	\$ 1.37	\$ 1.45	\$ 2.05
Diluted earnings per share			
Income before discontinued operations	\$ 1.31	\$ 1.19	\$ 1.20
Discontinued operations	0.05	0.24	0.83
Net income	\$ 1.36	\$ 1.43	\$ 2.03

There were no anti-dilutive options outstanding for the years ended December 31, 2005 and 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 prices were 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.

**Note 14—Litigation****Legal Proceedings Presently Defended and Indemnified by Third Parties**

The following litigation and other matters arose from our operations prior to the time of our spin off of Kindred in May 1998 or relate to assets or liabilities transferred to Kindred in connection with the spin off. Under the agreements we entered into with Kindred at the time of the spin off, Kindred assumed the defense, on our behalf, of the matters described below, among others, and has indemnified us for any fees, costs, expenses and liabilities related to these matters (the "Indemnification"). 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 these 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 spin off. In addition, 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 Circuit Court of Jefferson County, Kentucky. 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. 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 July 26, 2005, the Court granted Kindred's motion and dismissed this action in its entirety. The plaintiff has appealed to the Kentucky Court of Appeals, and the parties are completing their briefing. 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, 2005.

Kindred, Brookdale and Alterra are parties to certain legal actions and regulatory investigations arising in the normal course of their business. There can be no 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, Brookdale's or Alterra'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. 99 C107076, 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 its 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, 2005.

During the fourth quarter of 2005, we settled the 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 asserted claims of legal malpractice and breach of fiduciary duty by Sullivan & Cromwell in connection with its legal representation of us in our spin off of Kindred. Under the terms of the settlement, a \$25.5 million payment was made to us on behalf of Sullivan & Cromwell in the fourth quarter of 2005. After payment of expenses for this action, including the contingent fee for our outside legal counsel, we received approximately \$15.9 million in net proceeds from the settlement, which we used to establish a charitable foundation, to repay debt and for other corporate purposes.

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 14, 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, 2005.

### Note 15—Capital Stock

The authorized capital stock at December 31, 2005, 2004 and 2003 consisted of 180,000,000 shares of common stock, par value of \$0.25 per share, and 10,000,000 shares of preferred stock, par value \$1.00 per share, of which 65,000 shares have been designated as Series A Preferred Stock and 300,000 shares have been designated Series A Participating Preferred Stock.

We have an effective registration statement on Form S-3 relating to the sale from time to time of up to \$750.0 million aggregate offering price of common stock, preferred stock, subsidiary debt securities and related guarantees, depository shares and warrants. As of December 31, 2005, approximately \$501.0 million of securities remained available for offering under the shelf registration statement.

In July 2005, we completed the sale of 3,247,000 shares of our common stock in an underwritten public offering pursuant to the shelf registration statement. We received \$97.0 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.

In March 2004, we completed the sale of 2,000,000 shares of our common stock in an underwritten public offering pursuant to the 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.

### 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 nine percent of our outstanding common stock or 9.9 percent of our outstanding preferred stock, the shares that are beneficially owned in excess of such 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 (i) the price per share in the transaction that created the excess shares, or (ii) the market price on the date we buy the shares, and we may 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. In June 2003, we granted a waiver (the “C&S Waiver”) from the nine percent ownership limitation provisions 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 fourteen percent 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. In March 2005, we began offering a one percent 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 two percent 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 16—Related Party Transactions

At December 31, 2005 and 2004, we had receivables of approximately \$2.8 million and \$3.2 million, respectively, due from certain current and former executive officers. The loans include interest provisions (with a 4.9 percent average annual interest rate) and were made to finance the income taxes payable by the executive officers resulting from (i) our 1998 spin off of Kindred and (ii) vesting of restricted shares. The loans are payable over a period of ten years. Interest on a note relating to the spin off in the principal amount of \$1.1 million at December 31, 2005 (the "Spin Off Note"), is paid on a quarterly basis. The payee of the Spin Off Note resigned as an employee and director of Ventas in January 2003. In the event of a change in control, as defined in our previous 1997 Incentive Compensation Plan, accrued interest on and the principal balance of the 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 Spin Off Note is not secured.

During 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 member of our Board of Directors 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, 2005, 2004 and 2003, Tangram has paid us approximately \$863,000, \$834,000 and \$816,000, respectively, in base rent payments.

### Note 17—Quarterly Financial Information (Unaudited)

Summarized unaudited consolidated quarterly information for the years ended December 31, 2005 and 2004 is provided below.

For the Year Ended December 31, 2005 (in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues <sup>(1)</sup>	\$63,800	\$74,952	\$95,933	\$98,303
Income before discontinued operations <sup>(1)</sup>	27,612	27,108	28,719	41,808
Discontinued operations <sup>(1)</sup>	(39)	(40)	2	5,413
Net income	27,573	27,068	28,721	47,221
Earnings per share:				
Basic:				
Income before discontinued operations	\$ 0.33	\$ 0.31	\$ 0.28	\$ 0.40
Discontinued operations	—	—	—	0.06
Net income	\$ 0.33	\$ 0.31	\$ 0.28	\$ 0.46
Diluted:				
Income before discontinued operations	\$ 0.32	\$ 0.30	\$ 0.28	\$ 0.40
Discontinued operations	—	—	—	0.05
Net income	\$ 0.32	\$ 0.30	\$ 0.28	\$ 0.45
Dividends declared per share	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36

(1) The amounts presented for the three months ended March 31, 2005, June 30, 2005 and September 30, 2005 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 2005. The following is a reconciliation to the amounts previously reported in the Form 10-Q:

For the Three Months Ended	March 31, 2005	June 30, 2005	September 30, 2005
(in thousands)			
Revenues, previously reported in Form 10-Q	\$64,003	\$75,154	\$96,135
Revenues, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(203)	(202)	(202)
Total revenues disclosed in Form 10-K	\$63,800	\$74,952	\$95,933
Income before discontinued operations, previously reported in Form 10-Q	\$27,573	\$27,068	\$28,721
Income before discontinued operations, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	39	40	(2)
Income before discontinued operations disclosed in Form 10-K	\$27,612	\$27,108	\$28,719
Discontinued operations, previously reported in Form 10-Q	\$ —	\$ —	\$ —
Discontinued operations from properties sold subsequent to the respective reporting period	(39)	(40)	2
Discontinued operations disclosed in Form 10-K	\$ (39)	\$ (40)	\$ 2

For the Year Ended December 31, 2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share amounts)				
Revenues <sup>(1)</sup>	\$53,808	\$59,223	\$61,060	\$61,930
Income before discontinued operations <sup>(1)</sup>	23,095	25,503	25,157	26,465
Discontinued operations <sup>(1)</sup>	180	151	140	20,209
Net income	23,275	25,654	25,297	46,674
Earnings per share:				
Basic:				
Income before discontinued operations	\$ 0.28	\$ 0.31	\$ 0.30	\$ 0.31
Discontinued operations	—	—	—	0.24
Net income	\$ 0.28	\$ 0.31	\$ 0.30	\$ 0.55
Diluted:				
Income before discontinued operations	\$ 0.28	\$ 0.30	\$ 0.30	\$ 0.31
Discontinued operations	—	—	—	0.24
Net income	\$ 0.28	\$ 0.30	\$ 0.30	\$ 0.55
Dividends declared per share	\$ 0.325	\$ 0.325	\$ 0.325	\$ 0.325

(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)			
Revenues, previously reported in Form 10-Q	\$53,943	\$59,425	\$61,262
Revenues, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	(135)	(202)	(202)
Total revenues disclosed in Form 10-K	\$53,808	\$59,223	\$61,060
Income before discontinued operations, previously reported in Form 10-Q	\$23,091	\$25,464	\$25,100
Income before discontinued operations, previously reported in Form 10-Q, subsequently reclassified to discontinued operations	4	39	57
Income before discontinued operations disclosed in Form 10-K	\$23,095	\$25,503	\$25,157
Discontinued operations, previously reported in Form 10-Q	\$ 184	\$ 190	\$ 197
Discontinued operations from properties sold subsequent to the respective reporting period	(4)	(39)	(57)
Discontinued operations disclosed in Form 10-K	\$ 180	\$ 151	\$ 140



## Note 18 – 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, of which we own substantially all of the partnership units, 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 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, 2005, approximately \$114.3 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, 2005 and 2004 and for each of the three years in the period ended December 31, 2005:

### Condensed Consolidating Balance Sheet

As of December 31, 2005 (in thousands)	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
<b>Assets</b>							
Net real estate investments	\$ 12,117	\$ 56,200	\$ 946,916	\$ 925,791	\$585,450	\$ —	\$2,526,474
Cash and cash equivalents	1	1	1	1,026	612	—	1,641
Escrow deposits and restricted cash	220	26	26,734	17,595	15,092	—	59,667
Deferred financing costs, net	—	—	—	17,581	—	—	17,581
Notes receivable - related parties	1,716	—	—	1,125	—	—	2,841
Equity in affiliates	374,862	80,390	109,519	724,039	15	(1,288,825)	—
Investment in affiliates	—	9,039	—	—	—	(9,039)	—
Other	—	509	13,057	9,893	7,455	—	30,914
<b>Total assets</b>	<b>\$388,916</b>	<b>\$146,165</b>	<b>\$1,096,227</b>	<b>\$1,697,050</b>	<b>\$608,624</b>	<b>\$(1,297,864)</b>	<b>\$2,639,118</b>
<b>Liabilities and stockholders’ equity</b>							
<b>Liabilities:</b>							
Senior notes payable and other debt	\$ —	\$ 424	\$ 300,631	\$1,180,239	\$321,270	\$ —	\$1,802,564
Intercompany	—	2,696	125,000	(132,500)	4,804	—	—
Deferred revenue	44	—	1,900	8,596	—	—	10,540
Interest rate swap agreement	—	—	—	1,580	—	—	1,580
Accrued dividend	37,272	71	—	—	—	—	37,343
Accrued interest	—	3	1,429	11,190	1,796	—	14,418
Accounts payable and other accrued liabilities	2,346	103	22,846	36,163	13,109	393	74,960
Deferred income taxes	30,394	—	—	—	—	—	30,394
<b>Total liabilities</b>	<b>70,056</b>	<b>3,297</b>	<b>451,806</b>	<b>1,105,268</b>	<b>340,979</b>	<b>393</b>	<b>1,971,799</b>
<b>Total stockholders’ equity</b>	<b>318,860</b>	<b>142,868</b>	<b>644,421</b>	<b>591,782</b>	<b>267,645</b>	<b>(1,298,257)</b>	<b>667,319</b>
<b>Total liabilities and stockholders’ equity</b>	<b>\$388,916</b>	<b>\$146,165</b>	<b>\$1,096,227</b>	<b>\$1,697,050</b>	<b>\$608,624</b>	<b>\$(1,297,864)</b>	<b>\$2,639,118</b>

(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, 2004	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidation
(in thousands)							
<b>Assets</b>							
Net real estate investments	\$ 12,806	\$ 63,608	\$ 95,719	\$772,883	\$126,116	\$ —	\$1,071,132
Cash and cash equivalents	48	37	9	1,846	1,425	—	3,365
Escrow deposits and restricted cash	237	2,658	5,041	12,812	4,962	—	25,710
Deferred financing costs, net	—	—	2,612	10,938	—	—	13,550
Notes receivable - related parties	1,716	—	—	1,500	—	—	3,216
Equity in affiliates	391,817	80,447	114,867	—	15	(587,146)	—
Other	—	209	191	8,555	1,007	—	9,962
<b>Total assets</b>	<b>\$406,624</b>	<b>\$146,959</b>	<b>\$218,439</b>	<b>\$808,534</b>	<b>\$133,525</b>	<b>\$(587,146)</b>	<b>\$1,126,935</b>
<b>Liabilities and stockholders' equity</b>							
Liabilities:							
Senior notes payable							
and other debt	\$ —	\$ 9,666	\$212,612	\$530,037	\$ 90,863	\$ —	\$ 843,178
Intercompany	—	3,622	—	(7,802)	4,180	—	—
Deferred revenue	71	—	2,327	10,489	—	—	12,887
Interest rate swap agreement	—	—	—	16,550	—	—	16,550
Accrued dividend	27,498	—	—	—	—	—	27,498
Accrued interest	—	264	502	7,435	542	—	8,743
Accounts payable and							
other accrued liabilities	2,030	607	—	19,895	4,536	393	27,461
Deferred income taxes	30,394	—	—	—	—	—	30,394
<b>Total liabilities</b>	<b>59,993</b>	<b>14,159</b>	<b>215,441</b>	<b>576,604</b>	<b>100,121</b>	<b>393</b>	<b>966,711</b>
<b>Total stockholders' equity</b>	<b>346,631</b>	<b>132,800</b>	<b>2,998</b>	<b>231,930</b>	<b>33,404</b>	<b>(587,539)</b>	<b>160,224</b>
<b>Total liabilities and</b>							
<b>stockholders' equity</b>	<b>\$406,624</b>	<b>\$146,959</b>	<b>\$218,439</b>	<b>\$808,534</b>	<b>\$133,525</b>	<b>\$(587,146)</b>	<b>\$1,126,935</b>

(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, 2005	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)							
Revenues:							
Rental income	\$ 2,349	\$5,683	\$ 77,380	\$203,013	\$36,294	\$ —	\$324,719
Interest income from loans receivable	—	—	—	5,001	—	—	5,001
Equity earnings in affiliates	130,026	(483)	29,886	—	—	(159,429)	—
Interest and other income	75	93	110	2,901	89	—	3,268
Total revenues	132,450	5,293	107,376	210,915	36,383	(159,429)	332,988
Expenses:							
Interest	—	36	21,504	69,462	14,579	—	105,581
Depreciation	690	2,140	27,400	43,271	14,347	—	87,848
Property-level operating expenses	—	—	—	428	2,148	—	2,576
General, administrative and professional fees	1,168	583	6,157	12,401	2,795	—	23,104
Stock-based compensation	9	26	285	1,522	129	—	1,971
Loss on extinguishment of debt	—	—	1,376	—	—	—	1,376
Net gain on swap breakage	—	—	—	(981)	—	—	(981)
Net proceeds from litigation settlement	—	—	—	(15,909)	—	—	(15,909)
Contribution to charitable foundation	—	—	—	2,000	—	—	2,000
Intercompany interest	—	(25)	—	(599)	624	—	—
Total expenses	1,867	2,760	56,722	111,595	34,622	—	207,566
Income before net loss on discontinued operations	130,583	2,533	50,654	99,320	1,761	(159,429)	125,422
Net loss on real estate disposals	—	—	—	(175)	—	—	(175)
Income before discontinued operations	130,583	2,533	50,654	99,145	1,761	(159,429)	125,247
Discontinued operations	—	5,441	—	(105)	—	—	5,336
Net income	\$130,583	\$7,974	\$ 50,654	\$ 99,040	\$ 1,761	\$(159,429)	\$130,583

(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 <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)							
<b>Revenues:</b>							
Rental income	\$ 2,271	\$5,198	\$34,089	\$177,745	\$12,773	\$ —	\$232,076
Interest income	—	—	—	2,958	—	—	2,958
from loans receivable	—	—	—	—	—	—	—
Equity earnings in affiliates	119,661	(376)	3,218	—	—	(122,503)	—
Interest and other income	161	72	8	703	43	—	987
Total revenues	122,093	4,894	37,315	181,406	12,816	(122,503)	236,021
<b>Expenses:</b>							
Interest	—	139	8,099	52,125	5,742	—	66,105
Depreciation	694	1,960	5,319	37,214	3,678	—	48,865
Property-level	—	—	—	142	1,195	—	1,337
operating expenses	—	—	—	—	—	—	—
General, administrative	487	576	2,450	12,027	920	—	16,460
and professional fees	12	31	176	1,385	60	—	1,664
Stock-based compensation	—	—	—	1,370	—	—	1,370
Loss on extinguishment of debt	—	(110)	—	(409)	519	—	—
Intercompany interest	—	—	—	—	—	—	—
Total expenses	1,193	2,596	16,044	103,854	12,114	—	135,801
Income before	120,900	2,298	21,271	77,552	702	(122,503)	100,220
discontinued operations	—	(47)	—	20,727	—	—	20,680
Discontinued operations	—	—	—	—	—	—	—
Net income	\$120,900	\$2,251	\$21,271	\$ 98,279	\$ 702	\$(122,503)	\$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 <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)						
<b>Revenues:</b>						
Rental income	\$ 2,112	\$32,949	\$154,926	\$ —	\$ —	\$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	13	1,342	—	—	1,696
Total revenues	148,398	34,186	159,304	—	(147,169)	194,719
<b>Expenses:</b>						
Interest	—	8,284	53,376	—	—	61,660
Depreciation	694	5,319	33,487	—	—	39,500
General, administrative and professional fees	159	2,517	11,997	—	—	14,673
Stock-based compensation	13	212	1,534	—	—	1,759
Loss on extinguishment of debt	—	84	—	—	—	84
Net loss on swap breakage	—	—	5,168	—	—	5,168
Reversal of contingent liability	(20,164)	—	—	—	—	(20,164)
Interest on United States settlement	4,943	—	—	—	—	4,943
Total expenses	(14,355)	16,416	105,562	—	—	107,623
Operating income	162,753	17,770	53,742	—	(147,169)	87,096
Gain on sale of Kindred common stock	—	—	9,039	—	—	9,039
Income before discontinued operations	162,753	17,770	62,781	—	(147,169)	96,135
Discontinued operations	—	6,905	59,713	—	—	66,618
Net income	\$162,753	\$24,675	\$122,494	\$ —	\$(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 Cash Flows

For the Year Ended December 31, 2005	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)							
Net cash provided by operating activities	\$ 1,563	\$ 6,221	\$ 43,593	\$ 159,440	\$ 12,947	\$ —	\$ 223,764
Net cash (used in) provided by investing activities	(17,321)	10,228	—	(607,948)	—	—	(615,041)
Cash flows from financing activities:							
Net change in borrowings under revolving credit facility	—	—	—	50,200	—	—	50,200
Proceeds from debt	—	—	—	600,000	—	—	600,000
Issuance of intercompany note	—	—	125,000	(125,000)	—	—	—
Repayment of debt	—	(9,242)	(214,598)	(4,561)	(3,587)	—	(231,988)
Payment of swap breakage fee	—	—	—	(2,320)	—	—	(2,320)
Payment of deferred financing costs	—	—	—	(9,279)	—	—	(9,279)
Issuance of common stock	101,964	—	—	—	—	—	101,964
Proceeds from stock option exercises	6,819	—	—	—	—	—	6,819
Cash distribution from affiliates	32,574	(7,046)	45,997	(61,479)	(10,046)	—	—
Cash distribution to stockholders	(125,646)	(197)	—	—	—	—	(125,843)
Net cash provided by (used in) financing activities	15,711	(16,485)	(43,601)	447,561	(13,633)	—	389,553
Net decrease in cash and cash equivalents	(47)	(36)	(8)	(947)	(686)	—	(1,724)
Cash and cash equivalents at beginning of year	48	37	9	1,973	1,298	—	3,365
Cash and cash equivalents at end of year	\$ 1	\$ 1	\$ 1	\$ 1,026	\$ 612	\$ —	\$ 1,641

(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	Ventas, Inc.	ETOP and ETOP Subsidiary Guarantors	Wholly Owned Subsidiary Guarantors	Issuers <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)							
Net cash provided by operating activities	\$ 2,578	\$ 4,461	\$ 24,839	\$ 112,982	\$ 5,098	\$ —	\$ 149,958
Net cash (used in) provided by 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
Proceeds from debt	—	—	—	125,000	—	—	125,000
Repayment of debt	—	(3,669)	(2,812)	(59,100)	(1,430)	—	(67,011)
Payment of deferred financing cost	—	—	—	(5,350)	—	—	(5,350)
Cash distribution from affiliates	140,205	(35,407)	(22,038)	(79,648)	(3,112)	—	—
Issuance of intercompany note	—	7,500	—	(7,500)	—	—	—
Issuance of common stock	64,206	—	—	—	—	—	64,206
Proceeds from stock option exercises	17,676	—	—	—	—	—	17,676
Cash distribution to stockholders	(103,523)	—	—	—	—	—	(103,523)
Net cash provided by (used in) financing activities	118,564	(31,576)	(24,850)	12,402	(4,542)	—	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 year	47	—	6	82,051	—	—	82,104
Cash and cash equivalents at end of year	\$ 48	\$ 37	\$ 9	\$ 1,846	\$ 1,425	\$ —	\$ 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 <sup>(1)</sup>	Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)						
Net cash provided by operating activities	\$ 158,508	\$ 26,056	\$ 99,971	\$ —	\$(147,169)	\$ 137,366
Net cash (used in) provided by investing activities	(52)	7,456	152,297	—	—	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 of deferred financing costs	—	—	(40)	—	—	(40)
Payment on the United States settlement	(46,647)	—	—	—	—	(46,647)
Cash distribution from affiliates	(54,167)	(26,260)	(66,742)	—	147,169	—
Proceeds from stock option exercises	22,604	—	—	—	—	22,604
Cash distribution to stockholders	(80,247)	—	—	—	—	(80,247)
Net cash used in financing activities	(158,457)	(33,507)	(172,623)	—	147,169	(217,418)
Net (decrease) increase in cash and cash equivalents	(1)	5	79,645	—	—	79,649
Cash and cash equivalents at beginning of year	48	1	2,406	—	—	2,455
Cash and cash equivalents at end of year	\$ 47	\$ 6	\$ 82,051	\$ —	\$ —	\$ 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.

**Note 19 – ETOP Condensed Consolidating Information**

ETOP, of which we own substantially all of the partnership interests, 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 18—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 ETOP’s and our debt service obligations, including ETOP’s and our guarantee of payment of principal and interest on the Senior Notes. See “Note 8—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**

As of December 31, 2005	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
<b>Assets</b>				
Total net real estate investments	\$ 56,200	\$88,992	\$ —	\$145,192
Cash and cash equivalents	1	438	—	439
Escrow deposits and restricted cash	26	5,590	—	5,616
Equity in affiliates	80,390	15	(80,405)	—
Investment in affiliates	9,039	—	—	9,039
Other	509	1,366	—	1,875
<b>Total assets</b>	<b>\$146,165</b>	<b>\$96,401</b>	<b>\$(80,405)</b>	<b>\$162,161</b>
<b>Liabilities and partners’ equity</b>				
Liabilities:				
Notes payable and other debt	\$ 424	\$66,776	\$ —	\$ 67,200
Intercompany	(4,804)	4,804	—	—
Note payable to affiliate	7,500	—	—	7,500
Accrued dividend	71	—	—	71
Accrued interest	3	431	—	434
Accounts payable and other accrued liabilities	103	3,017	—	3,120
<b>Total liabilities</b>	<b>3,297</b>	<b>75,028</b>	<b>—</b>	<b>78,325</b>
<b>Total partners’ equity</b>	<b>142,868</b>	<b>21,373</b>	<b>(80,405)</b>	<b>83,836</b>
<b>Total liabilities and partners’ equity</b>	<b>\$146,165</b>	<b>\$96,401</b>	<b>\$(80,405)</b>	<b>\$162,161</b>

**Condensed Consolidating Balance Sheet**

As of December 31, 2004	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
<b>Assets</b>				
Total net real estate investments	\$ 63,608	\$92,135	\$ —	\$155,743
Cash and cash equivalents	37	1,173	—	1,210
Escrow deposits and restricted cash	2,658	4,047	—	6,705
Equity in affiliates	80,447	15	(80,462)	—
Other	209	681	—	890
<b>Total assets</b>	<b>\$146,959</b>	<b>\$98,051</b>	<b>\$(80,462)</b>	<b>\$164,548</b>
<b>Liabilities and partners’ equity</b>				
Liabilities:				
Notes payable and other debt and lease obligations	\$ 9,666	\$68,067	\$ —	\$ 77,733
Intercompany	(4,180)	4,180	—	—
Note payable to affiliate	7,802	—	—	7,802
Accrued interest	264	439	—	703
Accounts payable and other accrued liabilities	607	2,716	—	3,323
<b>Total liabilities</b>	<b>14,159</b>	<b>75,402</b>	<b>—</b>	<b>89,561</b>
<b>Total partners’ equity</b>	<b>132,800</b>	<b>22,649</b>	<b>(80,462)</b>	<b>74,987</b>
<b>Total liabilities and partners’ equity</b>	<b>\$146,959</b>	<b>\$98,051</b>	<b>\$(80,462)</b>	<b>\$164,548</b>

## Condensed Consolidating Statement of Income

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
For the Year Ended December 31, 2005				
(in thousands)				
Revenues:				
Rental income	\$5,683	\$10,695	\$ —	\$16,378
Interest and other income	93	56	—	149
Equity earnings in affiliates	(483)	—	483	—
Total revenues	5,293	10,751	483	16,527
Expenses:				
Interest	36	5,161	—	5,197
Depreciation	2,140	3,167	—	5,307
Property-level operating expenses	—	1,430	—	1,430
General, administrative and professional fees	583	814	—	1,397
Stock-based compensation	26	37	—	63
Intercompany interest	(25)	625	—	600
Total expenses	2,760	11,234	—	13,994
Income (loss) before discontinued operations	2,533	(483)	483	2,533
Discontinued operations	5,441	—	—	5,441
Net income (loss)	\$7,974	\$ (483)	\$483	\$ 7,974

## Condensed Consolidating Statement of Income

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
For the Period from February 5, 2004 through December 31, 2004				
(in thousands)				
Revenues:				
Rental income	\$5,198	\$ 9,724	\$ —	\$14,922
Interest and other income	72	43	—	115
Equity earnings in affiliates	(376)	—	376	—
Total revenues	4,894	9,767	376	15,037
Expenses:				
Interest	139	4,814	—	4,953
Depreciation	1,960	2,896	—	4,856
Property-level operating expenses	—	1,161	—	1,161
General, administrative and professional fees	576	709	—	1,285
Stock-based compensation	31	44	—	75
Intercompany interest	(110)	519	—	409
Total expenses	2,596	10,143	—	12,739
Income (loss) before discontinued operations	2,298	(376)	376	2,298
Discontinued operations	(47)	—	—	(47)
Net income (loss)	\$2,251	\$ (376)	\$376	\$ 2,251



### Predecessor Company Condensed Consolidating Statement of Income

	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
For the Period from January 1, 2004 through February 4, 2004				
(in thousands)				
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:				
Interest	40	509	—	549
Depreciation	192	295	—	487
Property-level expenses	—	101	—	101
General and administrative	182	18	—	200
Loss on extinguishment of debt	8	—	—	8
Intercompany interest	37	26	(63)	—
Loss on sale of fixed assets	10	—	—	10
Total expenses	469	949	(63)	1,355
Income before discontinued operations	217	66	(66)	217
Discontinued operations	414	—	—	414
Net income	\$ 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:				
Interest	2,043	5,976	—	8,019
Depreciation	2,345	3,493	—	5,838
Property-level expenses	—	1,229	—	1,229
General and administrative	2,358	275	—	2,633
Severance expense	1,270	—	—	1,270
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 before discontinued operations	4,234	481	(3,639)	1,076
Discontinued operations	133	—	3,241	3,374
Net income	\$ 4,367	\$ 481	\$ (398)	\$ 4,450

### Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2005	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
Net cash provided by operating activities	\$ 6,221	\$ 1,410	\$ —	\$ 7,631
Net cash provided by (used in) investing activities	10,228	(25)	—	10,203
Cash flows from financing activities:				
Repayment of debt	(9,242)	(1,292)	—	(10,534)
Partner distribution	(7,046)	(828)	—	(7,874)
Cash dividends to stockholders	(197)	—	—	(197)
Net cash used in financing activities	(16,485)	(2,120)	—	(18,605)
Net decrease in cash and cash equivalents	(36)	(735)	—	(771)
Cash and cash equivalents at beginning of year	37	1,173	—	1,210
Cash and cash equivalents at end of year	\$ 1	\$ 438	\$ —	\$ 439

### Condensed Consolidating Statement of Cash Flows

For the Period from February 5, 2004 through December 31, 2004	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
(in thousands)				
Net cash provided by operating activities	\$ 4,461	\$ 2,907	\$ —	\$ 7,368
Net cash used in investing activities	—	(83)	—	(83)
Cash flows from financing activities:				
Repayment of debt	(3,669)	(1,009)	—	(4,678)
Issuance of note payable	7,500	—	—	7,500
Partner distribution	(35,407)	(1,510)	—	(36,917)
Net cash used in financing activities	(31,576)	(2,519)	—	(34,095)
Net (decrease) increase in cash and cash equivalents	(27,115)	305	—	(26,810)
Cash and cash equivalents at beginning of year	27,152	868	—	28,020
Cash and cash equivalents at end of year	\$ 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 in cash and cash equivalents	2,303	48	—	2,351
Cash and cash equivalents at beginning of year	24,848	821	—	25,669
Cash and cash equivalents at end of year	\$ 27,151	\$ 869	\$ —	\$ 28,020

### Predecessor Company Condensed Consolidating Statement of Cash Flows

For the Year Ended December 31, 2003 (unaudited) (in thousands)	ETOP and ETOP Subsidiary Guarantors	ETOP Non-Guarantor Subsidiaries	Consolidated Elimination	Consolidated
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 in cash and cash equivalents	17,187	1,170	—	18,357
Cash and cash equivalents at beginning of year	6,906	473	—	7,379
Cash and cash equivalents at end of year	\$ 24,093	\$ 1,643	\$ —	\$ 25,736

## Certifications 2005

In 2005, we submitted to the New York Stock Exchange a certificate of our Chief Executive Officer certifying that, as of the date thereof, she was not aware of any violation by us of New York Stock Exchange corporate governance listing standards. In addition, we have filed as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission, certificates of our Chief Executive Officer and Chief Financial Officer certifying the quality of our public disclosure.

# Supplemental Data

## 2005

### Funds from Operations

FFO and normalized FFO for the years ended December 31, 2005 and 2004:

For the Years Ended December 31, (in thousands, except per share amounts)	2005	2004	Per diluted share	
			2005	2004
Net income	\$130,583	\$120,900	\$ 1.36	\$ 1.43
Adjustments:				
Depreciation on real estate assets	87,406	48,477	0.92	0.58
Loss on real estate disposals	175	—	—	—
Other items:				
Discontinued operations:				
Gain on sale of real estate	(5,114)	(19,428)	(0.05)	(0.23)
Depreciation on real estate assets	153	373	—	—
FFO	213,203	150,322	2.23	1.78
Loss on extinguishment of debt	1,376	1,370	0.01	0.02
Contribution to charitable foundation	2,000	—	0.02	—
Net proceeds from litigation settlement	(15,909)	—	(0.16)	—
Net gain on swap breakage	(981)	—	(0.01)	—
Bridge loan commitment fee	402	—	—	—
Normalized FFO	\$200,091	\$151,692	\$ 2.09	\$ 1.80

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 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.

**EBITDA**

Earnings before interest, income taxes, depreciation and amortization ("EBITDA") and normalized EBITDA for the years ended December 31, 2005 and 2004:

For the Years Ended December 31,	2005	2004
(in thousands)		
Net income	\$130,583	\$120,900
Add back:		
Interest	105,581	66,105
Depreciation	87,848	48,865
Stock-based compensation	1,971	1,664
Net gain on swap breakage	(981)	—
Loss on extinguishment of debt	1,376	1,370
Discontinued operations add back:		
Depreciation	153	373
Interest	627	1,102
EBITDA	327,158	240,379
Adjustments:		
Net proceeds from litigation settlement	(15,909)	—
Contribution to charitable foundation	2,000	—
Net loss on real estate disposals	175	—
Discontinued operations:		
Gain on sale of real estate	(5,114)	(19,428)
Normalized EBITDA	\$308,310	\$220,951

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 or 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

## 2005

### 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 March 20, 2006, there were 103,846,929 shares of our common stock outstanding and approximately 3,385 stockholders of record.

#### Stock Performance

The prices in the table below for the calendar quarters indicated since the first quarter of 2004 represent the high and low sales prices of our common stock as reported on the NYSE.

	Sales Price of Common Stock		Dividends Declared
	High	Low	
<b>2004</b>			
First Quarter	\$27.55	\$21.88	\$0.325
Second Quarter	27.98	20.56	0.325
Third Quarter	27.84	23.06	0.325
Fourth Quarter	29.48	24.40	0.325
<b>2005</b>			
First Quarter	\$27.68	\$24.43	\$0.360
Second Quarter	31.62	25.10	0.360
Third Quarter	32.39	28.87	0.360
Fourth Quarter	32.71	29.25	0.360

#### Dividend Policy

On February 23, 2006, we declared the first quarterly installment of our 2006 dividend in the amount of \$0.395 per share, payable on March 30, 2006 to stockholders of record on March 7, 2006. We expect to distribute 100% or more of our taxable net income to our stockholders for 2006.

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 stated above. Please refer to the "Forward-Looking 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 15—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 Securities Exchange Act of 1934, as amended, or otherwise monetize their equity-based compensation.

# Corporate Data

## 2005

### Directors of the Company

Debra A. Cafaro (48)  
Chairman of the Board,  
President and Chief Executive Officer  
Ventas, Inc.

Douglas Crocker II (65)  
Presiding Director of Ventas, Inc.  
Retired, Chief Executive Officer  
and Vice Chairman  
Equity Residential Properties Trust

Ronald G. Geary (58)  
Chairman of the Board,  
President and Chief Executive Officer  
ResCare, Inc.

Jay M. Gellert (52)  
President and Chief Executive Officer  
Health Net, Inc.

Christopher T. Hannon (43)  
Retired, Senior Vice President  
and Chief Financial Officer  
Province Healthcare Company

Sheli Z. Rosenberg (64)  
Retired, Vice Chairman  
Equity Group Investments, LLC

Thomas C. Theobald (68)  
Senior Advisor  
Chicago Growth Capital

### Committees of the Board

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

*Executive Compensation Committee*  
Rosenberg (Chair), Crocker, Theobald

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

*Executive Committee*  
Gellert (Chair), Cafaro, Geary, Hannon

*Investment Committee*  
Cafaro (Chair), Crocker, Geary

### Ventas Senior Management

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

Raymond J. Lewis  
Executive Vice President and  
Chief Investment Officer

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

Richard A. Schweinhart  
Executive Vice President  
and Chief Financial Officer

### Corporate Offices

Ventas, Inc.  
111 South Wacker Drive  
Suite 4800  
Chicago, IL 60606

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

### Annual Meeting

The Annual Meeting of Stockholders will  
convene Friday, May 19, 2006, at 9:00 a.m.  
(Central Time) at 111 South Wacker Drive,  
29th Floor, Chicago, Illinois.

### Stock Information

Ventas, Inc. is traded on the NYSE under  
the ticker symbol "VTR."

As of March 20, 2006, Ventas had  
103,846,929 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 website  
at [www.ventasreit.com](http://www.ventasreit.com).

### Member

National Association of Real Estate  
Investment Trusts, Inc.



Ventas, Inc.

[www.ventasreit.com](http://www.ventasreit.com)

1-877-4VENTAS