

Selected Financial Data

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

	For Years Ended December 31,			For the Period from May 1, 1998 to December 31,
	2001	2000	1999	1998 ¹
(In thousands, except per share amounts)				
Operating Data				
Rental Income	\$ 185,152	\$ 232,841	\$ 228,600	\$149,933
Gain on sale of Kindred common stock	15,425	—	—	—
General and administrative and other expenses	14,902	20,781	21,566	5,697
United States Settlement	—	96,493	—	—
Interest expense	87,032	95,319	88,753	59,428
Interest on United States Settlement	4,592	—	—	—
Loss on uncollectible amounts due from tenants	—	48,328	34,418	—
Income (loss) before extraordinary charge	51,888	(61,245)	42,535	34,809
Net income (loss)	50,566	(65,452)	42,535	26,758
Per Share Data				
Income (loss) per common share before extraordinary loss, Basic	\$0.76	\$(0.90)	\$0.63	\$0.51
Net income (loss) per common share, Basic	0.74	(0.96)	0.63	0.39
Net income (loss) per common share, Diluted	0.73	(0.96)	0.63	0.39
Dividends declared per common share	0.92	0.91	0.39	—
Other Data				
Net cash provided by operating activities	\$ 79,893	\$ 85,338	\$ 103,580	\$ 86,757
Net cash provided by (used in) investing activities	2,760	5,359	371	(908)
Net cash provided by (used in) financing activities	(151,458)	(142,890)	35,305	(85,511)
FFO ²	93,502	76,479	85,023	84,660
Normalized FFO, excluding gain on Kindred common stock ³	78,077	76,479	85,023	84,660
Weighted average shares outstanding, Basic	68,409	68,010	67,754	67,681
Weighted average shares outstanding, Diluted	69,363	68,131	67,989	67,865
Balance Sheet Data				
Real estate investments, net	\$ 806,336	\$ 848,545	\$ 894,791	\$939,460
Cash and cash equivalents	18,596	87,401	139,594	338
Kindred common stock	55,118	—	—	—
Total assets	941,859	981,145	1,071,199	959,706
Notes payable and other debt	848,368	886,385	974,247	931,127
United States Settlement	54,747	96,493	—	—
Stockholders' Equity (deficit) ⁴	(91,074)	(117,514)	8,345	(9,009)

1 As a result of the May 1, 1998 spin-off, the Company is deemed to have commenced operations on May 1, 1998.

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

3 Normalized FFO in 2001 excludes the gain on sale of Kindred common stock.

FFO	\$ 93,502
Gain on Sale of Kindred Common Stock	(15,425)
	<u>\$ 78,077</u>

4 2001 includes \$17.5 million cumulative increase from a change in accounting for derivatives.

Capital Stock Information

Stock Trading Symbol – VTR

Stock Exchange Listing

The Company's Common Stock, \$0.25 par value, is listed and traded on the New York Stock Exchange.

Stockholders

As of March 15, 2002, there were 69,062,380 shares of Common Stock outstanding and approximately 4,361 stockholders of record.

Stock Performance

The prices in the table below for the calendar quarters indicated since the first quarter of 2000 represent the high and low sales prices for the Common Stock as reported on the NYSE.

Calendar Quarter	Sales Price of Common Stock	
	High	Low
First Quarter 2000	4.25	2.6875
Second Quarter 2000	4.25	3.125
Third Quarter 2000	5.8125	3.25
Fourth Quarter 2000	5.75	4.3125
First Quarter 2001	8.62	5.5625
Second Quarter 2001	11.02	8.50
Third Quarter 2001	12.85	10.14
Fourth Quarter 2001	12.80	10.75

Dividend Policy

Cash dividends of \$0.29 per share were paid in the first quarter of 2001 for the 2000 tax year. Aggregate dividends of \$0.92 per share were paid for the 2001 tax year. A cash dividend of \$0.22 per share was paid in the second, third and fourth quarters of 2001 for the 2001 tax year. Dividends of \$0.26 per share were paid in the first quarter of 2002 for the 2001 tax year through a distribution of approximately \$824,000 in cash and 334,886 shares of common stock that the Company owned in its primary tenant, Kindred Healthcare, Inc. ("Kindred").

As previously announced, we expect to pay total dividends to our stockholders for 2002 of \$0.95 per share, consistent with our intention to distribute 90% or more of our taxable net income to our stockholders (the "Distribution Policy"). We expect dividends will be paid quarterly, in cash, although we reserve the right to pay dividends by distributing a combination of cash and other property or securities, including Kindred common stock. A number of factors are considered by our Board of Directors when making the final determination regarding the frequency and amount of our dividends. Therefore, there can be no assurance that we will maintain this Distribution Policy or that our ability to pay dividends will not be limited by the terms of our Credit Agreement (as defined below). See "Note 5 – Borrowing Arrangements" to the Consolidated Financial Statements. Please refer to our Cautionary Statements contained elsewhere in this Annual Report and the Risk Factors in our Form 10-K for the fiscal year ended December 31, 2001, for a description of other factors that may affect our Distribution Policy.

Beginning with the first quarterly dividend for 2002, Ventas stockholders may reinvest all or a portion of any cash distribution on their shares of Ventas Common Stock by participating in the Company's Dividend Reinvestment and Stock Purchase Plan.

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

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with our Consolidated Financial Statements and the notes thereto.

Cautionary Statements

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements regarding Ventas and its subsidiaries' expected future financial position, results of operations, cash flows, funds from operations, dividends and dividend plans, financing plans, business strategy, budgets, projected costs, capital expenditures, competitive positions, growth opportunities, expected lease income, continued qualification as a real estate investment trust ("REIT"), plans and objectives of management for future operations and statements that include words such as "anticipate," "if," "believe," "plan," "estimate," "expect," "intend," "may," "could," "should," "will," and other similar expressions are forward-looking statements. Such forward-looking statements are inherently uncertain, and stockholders must recognize that actual results may differ from the Company's expectations. The Company does not undertake a duty to update such forward-looking statements.

Actual future results and trends for the Company may differ materially depending on a variety of factors discussed in the Company's filings with the Securities and Exchange Commission (the "Commission"). Factors that may affect the plans or results of the Company include, without limitation, (a) the ability and willingness of Kindred and certain of its affiliates to continue to meet and/or honor its obligations under its contractual arrangements with the Company and the Company's subsidiaries, including without limitation the lease agreements and various agreements (the "Spin Agreements") entered into by the Company and Kindred at the time of the Company's spin-off of Kindred on May 1, 1998 (the "1998 Spin Off") as such agreements may have been amended and restated in connection with Kindred's emergence from bankruptcy on April 20, 2001 (the "Kindred Effective Date"), (b) the ability and willingness of Kindred to continue to meet and/or honor its obligation to indemnify and defend the Company for all litigation and other claims relating to the healthcare operations and other assets and liabilities transferred to Kindred in the 1998 Spin Off, (c) the ability of Kindred and the Company's other operators to maintain the financial strength and liquidity necessary to satisfy their respective obligations and duties under the leases and

other agreements with the Company, and their existing credit agreements, (d) the Company's success in implementing its business strategy, (e) the nature and extent of future competition, (f) the extent of future healthcare reform and regulation, including cost containment measures and changes in reimbursement policies and procedures, (g) increases in the cost of borrowing for the Company, (h) the ability of the Company's operators to deliver high quality care and to attract patients, (i) the results of litigation affecting the Company, (j) changes in general economic conditions and/or economic conditions in the markets in which the Company may, from time to time, compete, (k) the ability of the Company to pay down, refinance, restructure, and/or extend its indebtedness as it becomes due, (l) the movement of interest rates and the resulting impact on the value of the Company's interest rate swap agreements and the ability of the Company to satisfy its obligation under one of these agreements to post cash collateral if required to do so, (m) the ability and willingness of Atria, Inc. ("Atria") to continue to meet and honor its contractual arrangements with the Company and Ventas Realty entered into connection with the Company's spin-off of its assisted living operations and related assets and liabilities to Atria in August 1996, (n) the ability and willingness of the Company to maintain its qualification as a REIT due to economic, market, legal, tax or other considerations, including without limitation, the Company's failure to qualify as a REIT due to its ownership of Kindred common stock, (o) the outcome of the audit being conducted by the Internal Revenue Service for the Company's tax years ended December 31, 1997 and 1998, (p) final determination of the Company's taxable net income for the year ended December 31, 2001, (q) the ability and willingness of the Company's tenants to renew their leases with the Company upon expiration of the leases and the Company's ability to relet its properties on the same or better terms in the event such leases expire and are not renewed by the existing tenants and (r) the limitations on the ability of the Company to sell, transfer or otherwise dispose of its common stock in Kindred arising out of the securities laws and the registration rights agreement the Company entered into with Kindred and certain of the holders of the Kindred common stock. Many of such factors are beyond the control of the Company and its management.

Introduction to Our Business

The Company owns a geographically diverse portfolio of healthcare related facilities, including hospitals, nursing facilities and personal care facilities, that it leases to third parties. Substantially all of the Company's revenues are derived from five master leases with Kindred (the "Master Leases"). As a result, the Company's financial condition and results of operations are dependent on the financial condition and results of operations of Kindred, which emerged from bankruptcy in April of 2001.

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), beginning with the tax year ended December 31, 1999. As a result, for so long as Ventas continues to satisfy the requirements for qualification as a REIT, including the distribution of 90% of taxable net income to its stockholders, it will not be subject to federal income taxation on the income so distributed.

Portfolio Overview

The following information as of December 31, 2001 provides an overview of the Company's portfolio of healthcare properties, which primarily includes skilled nursing facilities and hospitals operated by Kindred. See "Note 4 – Concentration of Credit Risk" to the Consolidated Financial Statements.

Year ended December 31, 2001

Portfolio by Type	Number of Properties	Number of Beds	2001 Revenue ^(a)	Percent of Revenue ^(a)
(In thousands)				
Skilled Nursing Facilities	216	27,952	\$119,416	65%
Hospitals	44	4,033	64,957	35
Personal Care Facilities	8	136	779	—
Total	268	32,121	\$185,152	100%

(a) Includes (i) revenue of \$1.7 million related to the amortization of deferred revenue recorded as a result of Ventas Realty's receipt of Kindred common stock and the amortization of the deferred revenue recorded from the receipt of \$4.5 million of additional future rents under the leases with Kindred, (ii) \$0.2 million from subleases under the Master Leases and (iii) four months of Kindred revenue under the stipulation entered into in connection with Kindred's bankruptcy (the "Rent Stipulation").

Year ended December 31, 2001

Portfolio by Type	Investment	Percent of Investment	Investment Per Bed
(In thousands)			
Skilled Nursing Facilities	\$ 827,539	70%	\$30
Hospitals	341,162	29	85
Personal Care Facilities	7,137	1	53
Total	\$1,175,838	100%	\$37

Year ended December 31, 2001

Portfolio by Operator/Tenant	Revenue	Percentage
(In thousands)		
Kindred ^(a)	\$182,854	98.8%
Other	2,298	1.2
Total	\$185,152	100.0%

For the period from January 1, 2001 through April 30, 2001, the Company reported revenue equal to the amount of rent actually paid by Kindred under the Rent Stipulation. The Company included in its revenue computation for the period from May 1, 2001 through December 31, 2001 the amount due and payable under the Master Leases for that period.

The adjusted revenue shown in the tables below (the "Adjusted Revenue") reflects the rent due and payable under the Master Leases as of December 31, 2001 for a full contract year, or May 1, 2001 through April 30, 2002.

(In thousands)	Adjusted Revenue	Percentage
Skilled Nursing Facilities	\$124,444	67%
Hospitals	60,468	33%
Personal Care Facilities	779	—
Total	\$185,691	100%

The Company's portfolio is broadly diversified by geographic location with rental revenues from facilities with only one state comprising more than ten percent of the Company's rental revenues.

Portfolio State	Year Ended December 31, 2001		Adjusted	
	Revenue ^(a)	Percentage	Revenue	Percentage
1. California	\$ 18,486	10.1	\$ 21,245	11.4
2. Florida	17,610	9.5	17,481	9.4
3. Massachusetts	16,623	9.0	17,366	9.4
4. Indiana	13,324	7.1	13,594	7.3
5. North Carolina	10,454	5.6	9,376	5.0
6. Kentucky	10,363	5.6	10,830	5.8
7. Illinois	8,906	4.8	8,487	4.6
8. Wisconsin	8,530	4.6	7,081	3.8
9. Texas	7,989	4.3	7,216	3.9
10. Ohio	6,993	3.8	7,003	3.8
Other (26 states)	65,874	35.6	66,012	35.6
	\$185,152	100.0	\$185,691	100.0

(a) Includes (i) revenue of \$1.7 million related to the amortization of deferred revenue recorded as a result of Ventas Realty's receipt of Kindred common stock and the amortization of the deferred revenue recorded from the receipt of \$4.5 million of additional future rents under the leases with Kindred, (ii) \$0.2 million from subleases under the Master Leases, and (iii) four months of Kindred revenue under the Rent Stipulation.

In addition to the diversification of lease rental revenues from the geographic diversification of the portfolio, the majority of the Company's facilities are located in states that have certificate of need ("CON") requirements. Certain states require state approval for development and expansion of healthcare facilities and services, including findings of need for additional or expanded healthcare facilities or services. A CON, which is issued by governmental agencies with jurisdiction over healthcare facilities, is at times required for expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major items of equipment or introduction of new services. The CON rules and regulations may restrict an operator's ability to expand the Company's properties in certain circumstances.

Consolidated Balance Sheets

December 31, 2001 and 2000
(In thousands)

	2001	2000
Assets		
Real estate investments:		
Land	\$ 119,771	\$ 120,151
Building and improvements	1,056,067	1,055,992
	1,175,838	1,176,143
Accumulated depreciation	(369,502)	(327,598)
Total net real estate investments	806,336	848,545
Cash and cash equivalents	18,596	87,401
Restricted cash	20,773	26,893
Recoverable federal income taxes, restricted in 2000	—	3,211
Investment in Kindred Healthcare, Inc. common stock	55,118	—
Kindred Healthcare, Inc. common stock reserved for distribution	17,086	—
Deferred financing costs, net	14,153	10,875
Notes receivable from employees	3,635	3,422
Other	6,162	798
Total assets	\$ 941,859	\$ 981,145
Liabilities and stockholders' equity (deficit)		
Liabilities:		
Notes payable and other debt	\$ 848,368	\$ 886,385
United States Settlement	54,747	96,493
Deferred gain on partial termination of interest rate swap agreement	—	21,605
Deferred revenue	21,027	—
Interest rate swap agreements	27,430	—
Accrued dividend	17,910	19,846
Accounts payable and other accrued liabilities	18,154	13,720
Other liabilities – disputed tax refunds and accumulated interest	14,903	30,104
Deferred income taxes	30,394	30,506
Total liabilities	1,032,933	1,098,659
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, 10,000 shares authorized, unissued	—	—
Common stock, \$0.25 par value; authorized 180,000 shares; issued 73,608 shares in 2001 and 2000	18,402	18,402
Capital in excess of par value	122,468	132,228
Unearned compensation on restricted stock	(1,000)	(1,338)
Accumulated other comprehensive income	36,174	—
Retained earnings (deficit)	(134,088)	(121,323)
	41,956	27,969
Treasury stock – 4,723 shares in 2001 and 5,172 shares in 2000	(133,030)	(145,483)
Total stockholders' equity (deficit)	(91,074)	(117,514)
Total liabilities and stockholders' equity (deficit)	\$ 941,859	\$ 981,145

See accompanying notes.

Consolidated Statements of Operations

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands, except per share amounts)

	2001	2000	1999
Revenues:			
Rental income	\$185,152	\$232,841	\$228,600
Gain on sale of Kindred common stock	15,425	—	—
Interest and other income	4,004	9,481	4,391
Total revenues	204,581	242,322	232,991
Expenses:			
General and administrative	10,244	9,613	7,767
Professional fees	4,658	10,813	12,527
Non-recurring employee severance costs	—	355	1,272
United States Settlement	—	96,493	—
Loss on uncollectible amounts due from tenants	—	48,328	34,418
Loss on impairment of assets	—	—	1,927
Amortization of restricted stock grants	1,734	1,339	1,304
Depreciation	42,038	42,264	42,742
Interest	87,032	95,319	88,753
Interest on United States Settlement	4,592	—	—
Total expenses	150,298	304,524	190,710
Income (loss) before gain on disposal of real estate assets, provision for income taxes and extraordinary loss	54,283	(62,202)	42,281
Provision for income taxes	2,685	—	—
Income (loss) before gain on disposal of real estate assets and extraordinary loss	51,598	(62,202)	42,281
Net gain on real estate disposals	290	957	254
Income (loss) before extraordinary loss	51,888	(61,245)	42,535
Extraordinary loss on extinguishment of debt	(1,322)	(4,207)	—
Net income (loss)	\$ 50,566	\$ (65,452)	\$ 42,535
Earnings (loss) per common share:			
Basic:			
Income (loss) before extraordinary loss	\$ 0.76	\$ (0.90)	\$ 0.63
Extraordinary loss on extinguishment of debt	(0.02)	(0.06)	—
Net income (loss)	\$ 0.74	\$ (0.96)	\$ 0.63
Diluted:			
Income (loss) before extraordinary loss	\$ 0.75	\$ (0.90)	\$ 0.63
Extraordinary loss on extinguishment of debt	(0.02)	(0.06)	—
Net income (loss)	\$ 0.73	\$ (0.96)	\$ 0.63
Weighted average number of shares outstanding, basic	68,409	68,010	67,754
Weighted average number of shares outstanding, diluted	69,363	68,131	67,989

See accompanying notes.

Notes to Consolidated Financial Statements

Note 1 – Description of Business

Ventas, Inc. (“Ventas” or the “Company”) is a Delaware corporation that elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), for the year ended December 31, 1999. The Company believes that it has satisfied the requirements to qualify as a REIT for the years ended December 31, 2000 and 2001. The Company intends to continue to qualify as a REIT for the year ending December 31, 2002 and subsequent years. It is possible that economic, market, legal, tax or other considerations may cause the Company to fail, or elect not, to qualify as a REIT. The Company owns a geographically diverse portfolio of healthcare related facilities which consisted of 44 hospitals, 216 nursing facilities and eight personal care facilities in 36 states as of December 31, 2001. The Company and its subsidiaries lease these facilities to healthcare operating companies under “triple-net” or “absolute net” leases. Kindred Healthcare, Inc. and its subsidiaries (collectively, “Kindred”) lease 210 of the Company’s nursing facilities and all of the Company’s hospitals as of December 31, 2001. The Company conducts substantially all of its business through a wholly owned operating partnership, Ventas Realty, Limited Partnership (“Ventas Realty”) and an indirect, wholly owned limited liability company, Ventas Finance I, LLC (“Ventas Finance”). The Company operates in one segment which consists of owning and leasing healthcare facilities and leasing or subleasing such facilities to third parties.

As a result of the Kindred bankruptcy proceedings, the Company suspended the implementation of its original business strategy in 1999 and continued such suspension through 2001. The Company’s current business strategy is preserving and maximizing stockholders’ capital by means that include (a) the reduction of the amount of the Company’s indebtedness and a reduction of the average all-in cost of the Company’s indebtedness and (b) the implementation of a measured and disciplined diversification and growth program to reduce the Company’s dependence on Kindred. The ability of the Company to pursue certain of these objectives may be restricted by the terms of the Company’s Amended and Restated Credit, Security, Guaranty and Pledge Agreement dated January 31, 2000 (the “Credit Agreement”).

Note 2 – Summary of Significant Accounting Policies

Change in Accounting Principle

In June of 2000, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities,” which amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No. 133, as amended, requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. As discussed in “Note 5 – Borrowing Arrangements,”

the Company uses derivative instruments to protect against the risk of interest rate movements on future cash flows under its variable rate debt agreements. On January 1, 2001, the Company adopted SFAS No. 133, and at that time, designated anew the derivative instruments in accordance with the requirements of the new standard. The adoption of the standard as of January 1, 2001 resulted in the recognition of a liability of \$4.1 million to reflect the fair value of the Company’s interest rate swap agreement and an identical reduction to other comprehensive income, a component of stockholders’ equity. In addition, the \$21.6 million deferred gain recognized on a terminated derivative position (See “Note 5 – Borrowing Arrangements”) was reclassified to other comprehensive income, resulting in a cumulative adjustment to other comprehensive income of \$17.5 million. The FASB continues to issue interpretive guidance that could require changes in the Company’s application of the standard. SFAS No. 133 may increase or decrease reported net income and stockholders’ equity prospectively, depending on future levels of interest rates, the computed “effectiveness” of the derivatives, as that term is defined by SFAS No. 133, and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows. The Company reported its derivative instruments at fair value on the Consolidated Balance Sheet. Changes in the fair value of derivatives deemed to be eligible for hedge accounting are reported in Accumulated Other Comprehensive Income. Changes in fair value of derivative instruments that are not hedges are reported in the Statement of Operations. See “Note 5 – Borrowing Arrangements.” The fair value of the Company’s derivative instruments are estimated by a third party consultant.

Basis of Presentation

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

Reclassifications

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

Real Estate Investments

Investments in real estate properties are recorded at cost. The cost of the properties acquired is allocated between land and buildings based generally upon independent appraisals. Depreciation for buildings is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 50 years.

Impairment of Assets

Provisions for impairment losses related to long-lived assets, if any, are recognized when expected future cash flows are less than the carrying values of the assets. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relationship to the future

adverse effect on the business, financial condition, results of operation and liquidity of the Company, on the Company's ability to service its indebtedness and its obligations under the United States Settlement and on the Company's ability to make distributions to its stockholders as required to maintain its status as a REIT (a "Material Adverse Effect"). The failure of Kindred to make three consecutive rent payments will trigger an event of default under the Company's Credit Agreement (as defined below).

The Company generally invests excess cash in short term maturities of time deposits and other similar cash equivalents as required by the Credit Agreement (as defined below). See "Note 5 – Borrowing Arrangements."

Note 5 – Borrowing Arrangements

The following is a summary of the Company's long-term debt and certain interest rate and maturity information as of December 31, 2001 and 2000 (in thousands):

	2001	2000
Credit Agreement – \$25.0 million revolving credit line, bearing interest at either LIBOR plus 2.75% or the Base Rate plus 1.75% (\$17.8 million and \$25.0 million available as of December 31, 2001 and 2000, respectively)	\$ —	\$ —
Credit Agreement – Tranche A Loan, bearing interest at a rate of LIBOR plus 2.75% (9.48% at December 31, 2000)	—	113,017
Credit Agreement – Tranche B Loan, bearing interest at a rate of LIBOR plus 3.25% (5.16% at December 31, 2001), and LIBOR plus 3.75% (10.48% at December 31, 2000), due December 31, 2005 with amortization payments of \$30.0 million due on December 30, 2003 and \$50.0 million due on December 30, 2004, both such payments having been prepaid	150,000	300,000
Credit Agreement – Tranche C Loan, bearing interest at a rate of LIBOR plus 4.25% (6.16% at December 31, 2001 and 10.98% at December 31, 2000), due December 31, 2007	473,368	473,368
CMBS Loan, bearing interest at a nominal weighted average rate of LIBOR plus 1.4589% (3.40% at December 31, 2001), due December 9, 2006	225,000	—
	<u>\$848,368</u>	<u>\$886,385</u>

The Credit Agreement

On January 31, 2000, the Company entered into the Credit Agreement. The loans under the Credit Agreement are pre-payable without premium or penalty. Borrowings under the Credit Agreement bear interest at a margin over LIBOR described above or at a margin (that is 100 basis points less than the LIBOR margin) over a Base Rate. The Base Rate is deemed to be the greater of (i) the prime rate and (ii) the federal funds rate plus 50 basis points.

The Credit Agreement is secured by liens on substantially all of the Company's real property (other than the 40 skilled nursing facilities securing the CMBS Loan) and any related leases, rents and personal property. In addition, the Credit Agreement contains certain restrictive covenants, including, but not limited to, the following: (a) the Company can only pay dividends for any

year in amounts not to exceed the greater of (i) 80% of FFO, as defined in the Credit Agreement, or (ii) the minimum amount necessary to maintain its REIT status; (b) limitations on additional indebtedness, acquisitions of assets, liens, guarantees, investments, restricted payments, leases, affiliate transactions and capital expenditures; and (c) certain financial covenants, including those requiring the Company to have (i) Consolidated EBITDA (as defined in the Credit Agreement) on the last day of each fiscal quarter at least equal to 80% of the Company's Projected Consolidated EBITDA (as defined in the Credit Agreement) on the Kindred Effective Date; and (ii) a ratio of Consolidated EBITDA to Consolidated Interest Expense (as defined in the Credit Agreement) on a trailing four quarter basis (or such shorter period from May 1, 2001 through the end of the reported quarter), of at least 1.20 to 1.00. Certain of these covenants may be waived by holders of 51% or more of the principal indebtedness under the Credit Agreement.

The Credit Agreement amended and restated the Company's prior credit agreement (the "Prior Credit Agreement") that it had entered into at the time of the Company's spin-off of Kindred on May 1, 1998 (the "1998 Spin Off").

On October 29, 1999, in conjunction with the execution of a waiver of the Prior Credit Agreement, the Company paid a \$2.4 million loan waiver fee which was amortized over the extension period ending January 31, 2000. In connection with the consummation of the Credit Agreement on January 31, 2000, the Company paid a \$7.3 million loan restructuring fee. The fee is being amortized proportionately over the terms of the related loans and agreements. The Company also incurred an extraordinary loss of approximately \$4.2 million relating to the write-off of the unamortized deferred financing costs associated with the Prior Credit Agreement.

issuance to the chairman of the board and non-employee directors in lieu of the payment of all or a portion of their retainer and meeting fees, at their option. As of December 31, 2001, the number of shares available for future grants or issuance under the Ventas, Inc. 2000 Incentive Compensation Plan (Employee Plan), the Ventas, Inc. 2000 Stock Option Plan for Directors, and the Directors Stock Purchase Plan are 2,406,688, 110,250 and 195,168, respectively. No additional grants are permitted under the 1987 Incentive Compensation Program,

the 1987 Stock Option Plan for Non-Employee Directors and the TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan. As a result the number of shares reserved under these three Plans equals the number of options outstanding under such Plans. As of December 31, 2001, the Company has reserved 2,498,386 shares for issuance under these three Plans.

The following is a summary of stock option activity for the Company in 2001, 2000 and 1999:

A. 2001 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	4,745,636	\$0.1231 – \$26.0476	\$12.7134
Options Granted	603,705	5.875 – 12.0600	7.3180
Options Exercised	(134,408)	3.3125 – 10.3421	5.5095
Options Canceled	(380,714)	3.3125 – 24.1623	15.6160
Outstanding at end of year	4,834,219	\$0.1231 – \$26.0476	\$12.0116
Exercisable at end of year	4,053,519	\$0.1231 – \$26.0476	\$12.6054

B. 2000 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	5,066,530	\$0.1231 – \$27.0095	\$13.4575
Options Granted	319,739	3.3125 – 4.0000	3.3481
Options Exercised	(19,688)	0.8000 – 3.0595	1.1228
Options Canceled	(620,945)	0.6279 – 27.0095	14.3051
Outstanding at end of year	4,745,636	\$0.1231 – \$26.0476	\$12.7134
Exercisable at end of year	3,631,587	\$0.1231 – \$26.0476	\$13.2590

C. 1999 Activity

Activity	Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at beginning of year	5,379,229	\$0.1231 – \$27.0095	\$15.6758
Options Granted	1,052,000	1.6880 – 12.1875	5.2289
Options Exercised	(7,031)	0.5479 – 0.5479	0.5479
Options Canceled	(1,357,668)	1.4774 – 26.0091	15.8066
Outstanding at end of year	5,066,530	\$0.1231 – \$27.0095	\$13.4926
Exercisable at end of year	3,046,064	\$0.1231 – \$27.0095	\$13.8731

A summary of stock options outstanding at December 31, 2001 follows:

Range of Exercise Prices	Outstanding as of December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of December 31, 2001	Weighted Average Exercise Price
\$0.1231 to \$8.0000	1,671,425	8.0	\$ 5.2419	1,190,794	\$ 4.9793
\$8.0001 to \$13.2500	373,030	5.6	11.4389	298,947	11.4166
\$13.2501 to \$26.0476	2,789,764	5.0	16.1441	2,563,778	16.2861
	4,834,219	6.1	\$12.0116	4,053,519	\$12.6054

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

	Skilled Nursing Facilities	Hospitals	Land	Office Leases	Sub-leased Third Party Leases	Other	Total
2002	\$1,407	\$ 2,225	\$ 526	\$50	\$ 1,375	\$ 292	\$ 5,875
2003	1,054	2,225	497	—	1,224	265	5,265
2004	942	2,225	473	—	1,117	265	5,022
2005	716	1,925	473	—	1,117	265	4,496
2006	235	1,025	552	—	1,117	88	3,017
Thereafter	—	2,050	11,754	—	4,839	—	18,643
	\$4,354	\$11,675	\$14,275	\$50	\$10,789	\$1,175	\$42,318

Agreement of Indemnity – Third Party Contracts

In connection with the 1998 Spin Off, the Company assigned its former third party guaranty agreements to Kindred (the "Third Party Guarantees"). The Company may remain liable on the Third Party Guarantees assigned to Kindred. Under the terms of the Agreement of Indemnity – Third Party Contracts, Kindred and its subsidiaries have agreed to indemnify and hold the Company harmless from and against all claims against the Company arising out of the Third Party Guarantees assigned by the Company to Kindred. If Kindred is unable to or does not satisfy the obligations under any Third Party Guarantee assigned by the Company to Kindred, then the Company may be liable for the payment and performance of the obligations under any such agreement.

The Third Party Guarantees were entered into in connection with certain acquisitions and financing transactions. The Company believes that the aggregate exposure under these guarantees is approximately \$38.0 million. Under the Kindred Reorganization Plan, Kindred assumed and has agreed to fulfill its obligations under the Agreement of Indemnity – Third Party Contracts. There can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy its obligations incurred in connection with the Agreement of Indemnity – Third Party Contracts or that Kindred will continue to honor its obligations under the Agreement of Indemnity – Third Party Contracts. If Kindred does not satisfy or otherwise honor the obligations under the Agreement of Indemnity – Third Party Contracts, then the Company may be liable for the payment and performance of such obligations.

Assumption of Certain Operating Liabilities and Litigation

In connection with the 1998 Spin Off, Kindred agreed in various Spin Agreements to assume and to indemnify the Company for any and all liabilities that may arise out of the ownership or operation of the healthcare operations either before or after the date of the 1998 Spin Off. The indemnification provided by Kindred also covers losses, including costs and expenses,

which may arise from any future claims asserted against the Company based on these healthcare operations. In addition, at the time of the 1998 Spin Off, Kindred agreed to assume the defense, on behalf of the Company, of any claims that were pending at the time of the 1998 Spin Off, and which arose out of the ownership or operation of the healthcare operations. Kindred also agreed to defend, on behalf of the Company, any claims asserted after the 1998 Spin Off which arise out of the ownership and operation of the healthcare operations. Under the Kindred Reorganization Plan, Kindred assumed and agreed to perform its obligations under these indemnifications. There can be no assurance that Kindred will have sufficient assets, income and access to financing to enable it to satisfy its obligations incurred in connection with the 1998 Spin Off or that Kindred will continue to honor its obligations incurred in connection with the 1998 Spin Off. If Kindred does not satisfy or otherwise honor the obligations under these arrangements, then the Company may be liable for the payment and performance of such obligations and may have to assume the defense of such claims.

Kindred Common Stock and Registration Rights Agreement

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

Note 11 – Earnings Per Share

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Numerator for Basic and Diluted Earnings Per Share:			
Income (loss) before Extraordinary Item	\$51,888	\$(61,245)	\$42,535
Extraordinary Loss	(1,322)	(4,207)	—
Net Income (loss)	\$50,566	\$(65,452)	\$42,535
Denominator:			
Denominator for Basic Earnings Per Share – Weighted Average Shares	68,409	68,010	67,754
Effect of Dilutive Securities:			
Stock Options	810	67	15
Time Vesting Restricted Stock Awards	144	54	220
Dilutive Potential Common Stock	954	121	235
Denominator for Diluted Earnings Per Share – Adjusted Weighted Average	69,363	68,131	67,989
Basic Earnings (loss) Per Share:			
Income (loss) before Extraordinary Item	\$ 0.76	\$ (0.90)	\$ 0.63
Extraordinary Loss	(0.02)	(0.06)	—
Net Income (loss)	\$ 0.74	\$ (0.96)	\$ 0.63
Diluted Earnings (loss) Per Share:			
Income (loss) before Extraordinary Item	\$ 0.75	\$ (0.90)	\$ 0.63
Extraordinary Loss	(0.02)	(0.06)	—
Net Income (loss)	\$ 0.73	\$ (0.96)	\$ 0.63

Options to purchase 3.1 million shares of Common Stock ranging from \$10.8125 to \$26.0476 were outstanding at December 31, 2001, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year ended December 31, 2001 and, therefore, the effect would be anti-dilutive. Options to purchase 3.4 million shares of Common Stock ranging from \$5.885 to \$26.0476 were outstanding at December 31, 2000, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year ended December 31, 2000 and, therefore, the effect would be anti-dilutive. Options to purchase 5.1 million shares of Common Stock ranging from \$5.890 to \$27.820, were outstanding at December 31, 1999 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

Note 12 – Litigation**Legal Proceedings Defended and Indemnified by Kindred Under the Spin Agreements**

The following litigation and other matters arose from the Company's operations prior to the 1998 Spin Off or relate to assets or liabilities transferred to Kindred in connection with the 1998 Spin Off. Under the Spin Agreements, Kindred agreed to assume the defense, on behalf of the Company, of any claims that (a) were pending at the time of the 1998 Spin Off and which arose out of the ownership or operation of the healthcare operations or any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, or (b) were asserted after the 1998 Spin Off and which arose out of the ownership and operation of the healthcare operations or any of the assets or liabilities transferred to Kindred in connection with the 1998 Spin Off, and to indemnify the Company for any fees, costs, expenses and liabilities arising out of such operations (the "Indemnification"). Kindred is presently defending the Company in the matters described below. Under the Kindred Reorganization Plan, Kindred assumed and agreed to abide by the Indemnification and to defend the Company in these and other matters as required under the Spin Agreements. See "Note 9 – Transactions with Kindred – Assumption of Certain Operating Liabilities and Litigation." However, there