AMERIVEST PROPERTIES INC
Form DEF 14A
April 11, 2003

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨	Preliminary Proxy Statement	¨	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement		
¨	Definitive Additional Materials		
¨	Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12		

AMERIVEST PROPERTIES INC.

(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

Not applicable

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

---

(4) Date Filed:

AMERIVEST PROPERTIES INC.

1780 South Bellaire Street, Suite 100

Denver, Colorado 80222

(303) 297-1800

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be held May 20, 2003

The 2003 annual meeting of stockholders of AmeriVest Properties Inc. will be held on May 20, 2003 at 10:00 a.m. (Denver time) at the Centerra Building Conference Center, 1873 South Bellaire Street, Suite 570, Denver, Colorado 80222, for the following purposes:

1. To elect three Class 1 directors to our Board of Directors to hold office until the annual meeting of stockholders to be held in the year 2006 and thereafter until their successors are duly elected and have qualified and to elect one Class 2 director to our Board of Directors to hold office until the annual meeting of stockholders to be held in the year 2004 and thereafter until his successor is duly elected and has qualified;

2. To approve the Articles of Amendment and Restatement of our Articles of Incorporation (the New Charter);

3. To approve the AmeriVest Properties Inc. 2003 Long-Term Incentive Plan; and

4. To transact any other business that properly may come before the meeting and any adjournment or postponement thereof.

Only the stockholders of record as shown on our transfer books at the close of business on March 28th, 2003 are entitled to notice of, and to vote at, the stockholders meeting and any adjournment or postponement of the meeting.

Your vote is important. Regardless of whether you expect to attend the meeting in person, please vote by completing, dating, signing and returning promptly the enclosed proxy card in the accompanying envelope (which requires no postage if mailed in the United States) in accordance with the instructions on the proxy card. You may revoke your proxy at any time before it is exercised by delivering written notice of revocation to us, by substituting a new proxy executed at a later date, or by requesting, in person at the stockholders meeting, that the proxy be returned.

ALL STOCKHOLDERS ARE EXTENDED A CORDIAL INVITATION TO ATTEND THE STOCKHOLDER MEETING.

By the Board of Directors

ALEXANDER S. HEWITT

Secretary

Denver, Colorado

April 15, 2003

PROXY STATEMENT

AMERIVEST PROPERTIES INC.

1780 South Bellaire Street, Suite 100

Denver, Colorado 80222

(303) 297-1800

ANNUAL MEETING OF STOCKHOLDERS

to be held

May 20, 2003

This proxy statement is provided in connection with the solicitation of proxies by the Board of Directors of AmeriVest Properties Inc., a Maryland corporation, to be voted at the 2003 annual meeting of stockholders of AmeriVest to be held at 10:00 a.m. (Denver time) on May 20, 2003 at the Centerra Building Conference Center, 1873 South Bellaire Street, Suite 570, Denver, Colorado 80222, or at any adjournment or postponement of the meeting. We anticipate that this proxy statement and the accompanying form of proxy will be first mailed or given to stockholders on or about April 15, 2003.

The shares represented by all proxies that are properly executed and submitted will be voted at the meeting in accordance with the instructions indicated on the proxies. Unless otherwise directed, the shares represented by proxies will be voted for each of the proposals described in this proxy statement. Shares of common stock in the name of brokers that are not voted are treated as not present at the Annual Meeting. Votes at the Annual Meeting of Stockholders are counted by Inspectors of Election appointed by the chairman of the meeting.

A stockholder giving a proxy may revoke it at any time before it is exercised by delivering written notice of revocation to us, by substituting a new proxy executed at a later date, or by requesting, in person at the annual meeting, that the proxy be returned.

Only holders of common stock of record as of the close of business on March 28, 2003 will be entitled to vote at the meeting. As of the close of business on March 28, 2003, there were outstanding 11,542,713 shares of common stock entitled to vote at the meeting, with each share of common stock entitling the holder of record on such date to one vote.

The solicitation of proxies is to be made principally by mail. Following the original solicitation, however, further solicitations may be made by telephone or oral communication with stockholders. Our officers, directors and employees may solicit proxies, but without compensation for such solicitation other than their regular compensation as our employees. Arrangements also will be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to beneficial owners of the shares held of record by those persons. We may reimburse those persons for reasonable out-of-pocket expenses incurred by them in so doing. All expenses involved in preparing, assembling and mailing this proxy statement and the enclosed material will be paid by us. A majority of the issued and outstanding shares of common stock entitled to vote, represented either in person or by proxy, constitutes a quorum at any meeting of the stockholders.

Unless the context indicates otherwise, the terms us, we, or AmeriVest shall be used in the proxy statement to include AmeriVest Properties Inc. and all its subsidiaries that existed during the period of reference.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Our Articles of Incorporation provide that our Board of Directors is divided into three classes, designated Class 1, Class 2 and Class 3. Directors from each class are elected once every three years for a three-year term. John A. Labate, James F. Etter and Harry P. Gelles currently serve as the Class 1 directors, Charles K. Knight and Jerry J. Tepper serve as the Class 2 directors, and William T. Atkins and Robert W. Holman, Jr. serve as the Class 3 directors.

The terms of Messrs. Labate and Gelles expire at the annual meeting. On behalf of the Board of Directors, the Nominating Committee of the Board of Directors has nominated Messrs. Labate and Gelles for re-election to the Board of Directors as the Class 1 directors and Ms. Patrice Derrington for election to the Board as a Class 1 director. The Board of Directors recommends that each of Messrs. Labate, and Gelles be re-elected and Ms. Derrington be elected to the Board of Directors to serve as the Class 1 directors, to hold office until the 2006 annual meeting of stockholders and until their successors are elected and have qualified.

The term of Mr. Etter also expires at the annual meeting. Currently Mr. Etter is a Class 1 director; however, the Nominating Committee of the Board of Directors has nominated Mr. Etter for re-election to the Board of Directors as a Class 2 director. The Board of Directors recommends that Mr. Etter be re-elected to the Board of Directors as a Class 2 director, to hold office until the 2004 annual meeting of stockholders and until his successor is elected and has qualified.

Assuming the presence of a quorum, the affirmative vote of a majority of the shares represented at the meeting is required to elect each director. Cumulative voting is not permitted in the election of directors. Consequently, each stockholder is entitled to one vote for each share of common stock held in the stockholder s name. In the absence of instructions to the contrary, the persons named in the accompanying proxy shall vote the shares represented by that proxy for each of Messrs. Labate and Gelles, and Ms. Derrington as nominees for election as Class 1 directors, and for Mr. Etter as nominee for election as a Class 2 director. For purposes of the election of directors, abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum.

Our by-laws (the By-Laws) provide that nominations for the election of directors may be made by the Board of Directors or a committee of the Board of Directors or by any stockholder entitled to vote for the election of directors. To be considered, nominations by stockholders generally must be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of AmeriVest not less than 53 days nor more than 90 days prior to any meeting of the stockholders at which directors are to be elected. If less than 60 days notice of the annual meeting is given to stockholders, as is the case for the 2003 annual meeting of stockholders, written notice of nominations of directors by stockholders must be delivered or mailed, in the manner described above, to the Secretary of AmeriVest no later than the seventh day following the day on which notice of the annual meeting was mailed to stockholders. Each notice of nomination of directors by a stockholder must set forth the following:

- the name, age, business address and, if known, residence address of each nominee proposed in the notice;
- the principal occupation or employment of each such nominee for the five years preceding the date of the notice;
- the number of shares of stock of AmeriVest that are beneficially owned by each nominee, and

any arrangement, affiliation, association, agreement or other relationship of the nominee with any stockholder of AmeriVest.

The chairman of any meeting of stockholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with this procedure and that the defective nomination will be disregarded.

Each of Messrs. Labate, Etter and Gelles and Ms. Derrington has consented to be named in this proxy statement as a nominee for director and to serve on the Board of Directors if elected. It is not anticipated that any of Messrs. Labate, Etter and Gelles or Ms. Derrington will become unable or unwilling to accept nomination or election, but, if that should occur, the persons named in the proxy intend to vote for the election of such other person or persons as the Board of Directors may recommend.

The Board of Directors recommends that the stockholders vote FOR the election of each of Messrs. Labate, Etter and Gelles and Ms. Derrington to the Board of Directors.

DIRECTORS AND EXECUTIVE OFFICERS

Directors And Executive Officers

Set forth in the following table are the names of our directors and executive officers, their respective positions and ages, and the year in which each director was initially elected as a director of AmeriVest. Each director has been elected for a three-year term until the corresponding annual meeting of stockholders and thereafter until his successor is elected and has qualified. Approximately one-third of the director positions are elected at each annual meeting of stockholders. The terms of the directors who are not nominated for election at this year s annual meeting of stockholders will terminate at the annual meeting of stockholders in the following years: Messrs. Knight and Tepper, the Class 2 directors, in 2004; and Messrs. Atkins and Holman, the Class 3 directors, in 2005. Additional information concerning each of these individuals follows the table.

Name	Age	Position with AmeriVest	Initial Date as Director
Executive Officers and Directors			
William T. Atkins	54	Chief Executive Officer, Director and Chairman of the Board	1999
Charles K. Knight	45	President, Chief Operating Officer and Director	1999
John B. Greenman	48	Vice President	
D. Scott Ikenberry	53	Chief Financial Officer	
Alexander S. Hewitt	45	Vice President and Secretary	
Outside Directors			
James F. Etter (2)	60	Director	1995
Harry P. Gelles (1)(2)(3)	69	Director	2000
Robert W. Holman, Jr. (2)(3)	59	Director	2001
John A. Labate (1)(3)	54	Director	1995
Jerry J. Tepper (1)(3)	65	Director	2000
Patrice Derrington	47	Nominee for Director	

(1) Member of the Audit Committee of the Board.
(2) Member of the Compensation Committee of the Board.
(3) Member of the Nominating Committee of the Board.

William T. Atkins has served as a director of AmeriVest since August 1999, as our Chief Executive Officer since December 1999, and as Chairman of the Board since December 2000. Mr. Atkins became an employee of AmeriVest on January 1, 2002 as a result of our purchase of the administrative and property management and accounting services business of Sheridan Realty Advisors, LLC (SRA). Mr. Atkins has also served as Chairman and a managing member of SRA since December 1999. Since 1990, he has served as President of Sheridan Realty Corp., of which he is a principal stockholder and co-founder. Sheridan Realty Corp. is involved

in the commercial real estate business and serves as the general partner of Sheridan Realty Partners, the former owner of Keystone Office Park. Since 1996, Mr. Atkins has also served as general partner of Atkins Ltd. Partnership, an investment company. Since 1996, Mr. Atkins has served as a director of Rock River Trust Company, which is involved in trust administration, and from 1996 through 1998, he served as President of Rock River Trust Company. Prior to forming Sheridan Realty Corp., Mr. Atkins was the President and co-owner of E.K. Williams, an international consulting firm specializing in the franchise industry. Earlier, he was the founder and a senior executive of Watkins Pacific Corporation, a private conglomerate based in Honolulu with multinational operations. Mr. Atkins also developed and managed various real estate developments in Hawaii as a partner in Atkins & Ash. Mr. Atkins earned a Bachelor of Arts degree in economics from Stanford University in 1971.

Charles K. Knight has served as our President and Chief Operating Officer since October 2000, as a director of AmeriVest since August 1999 and as a Vice President and our corporate Secretary from December 1999 to October 2000. Mr. Knight became an employee of AmeriVest on January 1, 2002 as a result of our purchase of the administrative and property management and accounting services business of SRA. From December 1999 to December 2002, Mr. Knight served as President and a managing member of SRA. Since 1998, Mr. Knight has served as Vice President and a member of Sheridan Development, LLC. Sheridan Development is involved in the commercial real estate business and serves as the general partner of Sheridan Investments, LLC, the former owner of Sheridan Plaza at Inverness. Since 1996, Mr. Knight has been the owner and served as the President of Abaco Investment Group, a real estate investment company. Earlier, Mr. Knight was a Vice President of Public Storage Inc., a publicly traded REIT, and Vice President and General Counsel of Cardis Corporation, a publicly traded automotive parts distributor, and he worked for several years as a corporate securities attorney with firms in New York and Los Angeles. Mr. Knight received his Bachelor of Arts degree from the University of California at Santa Barbara in 1977, and his Juris Doctor and Masters of Business Administration degrees from the University of California at Los Angeles in 1982. Mr. Knight is licensed to practice law in the States of Colorado and New York and maintains an inactive license in California.

John B. Greenman has served as a Vice President of AmeriVest since January 2000. From December 1999 to December 2002, Mr. Greenman served as Senior Vice President and a member of SRA. Since 1994, he has served as Vice President of Sheridan Realty Corp. and as a senior officer of other Sheridan Group companies. Prior to joining The Sheridan Group, Mr. Greenman was a Senior Director in the Real Estate Capital Markets Group at Continental Bank in Chicago. He first joined Continental in 1979 and held several corporate banking positions, including an assignment to the bank s London branch. Mr. Greenman also worked at First Interstate Bank. He graduated from Amherst College in 1976 and in 1979 received his Masters of Arts degree from the School of Advanced International Studies at Johns Hopkins University. Mr. Greenman is a member of the Urban Land Institute.

D. Scott Ikenberry has served as our Chief Financial Officer since December 1999. Mr. Ikenberry became an employee of AmeriVest on January 1, 2002 as a result of our purchase of the administrative and property management and accounting services business of SRA. From December 1999 to December 2002, Mr. Ikenberry served as Chief Financial Officer and a member of SRA. Mr. Ikenberry has been Chief Financial Officer of Sheridan Realty Corp. and other Sheridan Group companies since August 1993. Prior to joining The Sheridan Group, he was Vice President-Finance of Realties, Inc., a Denver-based real estate development firm. Earlier, Mr. Ikenberry held senior finance positions with several real estate companies in the Denver area. He began his career in public accounting with Peat Marwick Mitchell & Co. in its Denver, Atlanta and Dallas offices. Mr. Ikenberry received his Bachelor of Science degree in Accounting from the University of Denver in 1972 and his Masters in Professional Accounting (Taxation) degree from the University of Texas at Austin in 1976. He is a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Accountants.

Alexander S. Hewitt has served as a Vice President of AmeriVest since January 2000 and as corporate Secretary since October 2000. Mr. Hewitt has also served as Vice Chairman of SRA since December 1999. Since

1990, Mr. Hewitt has also served as Vice President of Sheridan Realty Corp., of which he is a principal stockholder and co-founder and has held senior positions with other Sheridan Group companies. Since 1996, Mr. Hewitt has served as a director of Rock River Trust Company, which is involved in trust administration. Prior to founding Sheridan Realty Corp. with Mr. Atkins, Mr. Hewitt was Managing Director of his family s investment banking group. Earlier, he served as Assistant Treasurer in the international department of Chase Manhattan Bank, and was Managing Director of Archives Inc., a computer manufacturing and marketing firm in Davenport, Iowa. Mr. Hewitt earned a Bachelor of Arts degree in economics and a Bachelor of Science degree in Physics from Knox College in Galesburg, Illinois in 1982.

Outside Directors

James F. Etter served as our President from May 1995 until October 2000, as our Chief Financial Officer from July 1996 until December 1999 and as our Chief Executive Officer from January 1997 until December 1999. From 1994 until May 1995, Mr. Etter acted as a consultant with respect to real estate acquisitions not related to AmeriVest. Mr. Etter received his Masters of Business Administration and his Bachelor of Business Administration degrees from the University of Cincinnati. He is a member of the Financial Executives Institute and the National Investor Relations Institute.

Harry P. Gelles has served as a director of AmeriVest since June 2000. Mr. Gelles has been a private investor since 1985. During 1998, Mr. Gelles briefly served as a Managing Director of Cruttenden Roth, Inc., an investment banking firm. Mr. Gelles has fifteen years experience in investment banking, serving as a senior executive with Goldman Sachs & Company, White Weld & Co. and Dean Witter. Mr. Gelles also has extensive experience in real estate with Del Webb Corporation for eight years and as a private investor in several real estate development projects in Colorado Springs, Phoenix and Sacramento. Mr. Gelles serves on the Board of Directors of Chelsea Management Company, a public investment management company, Scent Air Technologies, Inc. and on numerous private and charitable boards. Mr. Gelles received his Bachelor of Arts and Masters of Business Administration degrees from Harvard University.

Robert W. Holman, Jr. has served as a director of AmeriVest since March 2001. Mr. Holman is also a director of I-Star Financial, a publicly traded finance company. He is the co-founder of TriNet Corporate Realty Trust and served ten years as Chief Executive Officer and Chairman of the Board of TriNet and its predecessor, Holman/Shidler Capital, Inc., until the 1999 merger of TriNet and Starwood Financial. Starwood Financial changed its name to I-Star Financial in April 2000. Mr. Holman graduated from the University of California at Berkeley with a degree in economics, earned a Masters degree in economics from Lancaster University, England, where he was a British Council Fellow, and is a former Harvard University Loeb Fellow. He has served as a board member, director or senior executive for a number of companies in the U.S., Britain and Mexico in the building materials, construction, finance, Internet commerce, real estate and travel industries.

John A. Labate has served as a director of AmeriVest since May 1995. Since September 1999, Mr. Labate has been Vice President and Chief Financial Officer of Applied OpSec, Inc., a provider of anti-counterfeiting technologies. From 1997 to August 1999, Mr. Labate was Vice President and Chief Financial Officer of GeoBiotics, Inc., a Denver based mineral technology company. Prior to 1997, Mr. Labate served as the Chief Financial Officer, Secretary, and Treasurer of Crown Resources Corporation, a publicly traded, Denver, Colorado based international gold mining and exploration company. Mr. Labate received his Bachelor of Science degree in accounting from San Diego State University.

Jerry J. Tepper has served as a director of AmeriVest since December 2000. Mr. Tepper has been President of Tepco, Inc., a privately held real estate investment company, since 1997, President of CF Group Ltd., a privately-held investment company in the retail food business, since 1964, and President of Schoenberg Farms, Inc., a dairy product company, since 1987. Prior to forming Tepco, Mr. Tepper was also a director of Citizens Bank in Westminster, Colorado, when it was purchased by Vectra Bank in 1999. From 1975 through 1980, Mr. Tepper was a director of Regal Petroleum, and from 1979 to 1983, he was a member of the United States Chamber of Commerce Food and Agriculture Committee.

Director Nominees

Patrice Derrington has been nominated to serve as a director by the Nominating Committee of the Board of Directors. Since 1996, Ms. Derrington has served as Managing Director of Victory Capital Management and was the founder and manager of the Victory Real Estate Investment Fund, a mutual fund that owns real estate securities. From March through December 2002 she also served as Vice President of the Lower Manhattan Development Corp., responsible for financial structuring for the revitalization of Lower Manhattan and projects related to redevelopment of the World Trade Center site. From 1991 through 1996, Ms. Derrington was a Vice President with Chemical Bank (JP Morgan), working in the area of real estate finance. Previously Ms. Derrington was an assistant professor in real estate with M.I.T and Carnegie-Mellon University. Ms. Derrington graduated from the University of Queensland in Brisbane, Australia with a degree in Architecture, earned a Ph.D. in Architecture and Civic Engineering from the University of California at Berkely, California and a Master of Business Administration degree from Harvard University.

Board and Committee Meetings

The Board of Directors held seven meetings in 2002 and each director participated in at least 85 percent of those meetings and meetings of the committees on which he served.

The Board maintains an Audit Committee, a Compensation Committee and a Nominating Committee.

Audit Committee

The Audit Committee was formed in 1995 to perform the following functions:

to recommend to the Board the independent auditors to be employed;

to discuss the scope of the independent auditors examination;

to review the financial statements and the independent auditors report;

to solicit recommendations from the independent auditors regarding internal controls and other matters;

to review all related party transactions for potential conflicts of interest;

to make recommendations to the Board; and

to perform other related tasks as requested by the Board of Directors.

During 2002, the Audit Committee, which currently consists of Messrs. Gelles, Labate and Tepper, held five meetings, and thus far has held one meeting in 2003. Mr. Labate serves as Chair of the Audit Committee. The Audit Committee s functions and activities during 2002 are described in more detail below under the heading Audit Committee Report below. The Board adopted a written charter for the Audit Committee during 2000. All members of the Audit Committee are independent within the meaning of the American Stock Exchange s listing standards and rules governing audit committees.

Audit Committee Report

The following Audit Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other AmeriVest filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent AmeriVest specifically incorporates this Audit Committee Report by reference therein.

The Audit Committee oversees AmeriVest s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management and with KPMG LLP, AmeriVest s independent accountants and auditors, the audited financial statements in AmeriVest s Annual Report on Form 10-KSB for the year ended December 31, 2002.

The Audit Committee discussed with the independent auditors, who are responsible for expressing an opinion on the conformity of audited financial statements with generally accepted accounting principles, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended. This included (i) the independent auditors judgments as to the quality, not just the acceptability, of AmeriVest s accounting principles as applied in its financial reporting, (ii) methods used to account for significant unusual transactions, (iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus, (iv) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor s conclusions regarding the reasonableness of those estimates and (v) disagreements with management over the application of accounting principles, the basis for management s accounting estimates and disclosures in the financial statements.

The Audit Committee also received from its independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1 regarding their independence, and has discussed with the independent auditors their independence relative to AmeriVest, including whether the provision of the services described below under Independent Public Accountants Financial Information Systems Design and Implementation Fees and All Other Fees is compatible with maintaining the independent auditors independence.

The Audit Committee discussed with AmeriVest s independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of the auditors examinations, their evaluations of AmeriVest s internal controls, and the overall quality of AmeriVest s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-KSB for the year ended December 31, 2002 for filing with the SEC.

Respectfully submitted,

John A. Labate, Chair

Harry P. Gelles

Jerry J. Tepper

Compensation Committee

The Compensation Committee was formed on December 4, 2001 to be responsible for setting the compensation of all executive officers.

The Compensation Committee currently consists of Messrs. Gelles, Holman and Etter, with Mr. Gelles serving as the chair of the committee. The Compensation Committee held two meetings in 2002 and has not met in 2003.

Nominating Committee

The Nominating Committee was formed on March 11, 2002. The Nominating Committee has the responsibility to identify and select individuals for nomination to our Board of Directors and to set rules regarding the qualifications for such individuals, whether in connection with persons to be slated by AmeriVest for membership on the Board of Directors at an annual meeting of the stockholders or in connection with filling vacancies or increasing the size of the Board, and to reclassify directors as it deems appropriate.

The Nominating Committee currently consists of Messrs. Gelles, Holman, Tepper and Labate, with Mr. Holman serving as the chair of the committee. The Nominating Committee held one meeting in 2002 and has met once in 2003 to nominate the directors to stand for election this year. The Nominating Committee does not consider nominees recommended by stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and holders of more than 10 percent of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other of our equity securities. We believe that during the year ended December 31, 2002, our officers, directors and holders of more than 10 percent of our common stock complied with all Section 16(a) filing requirements, except William T. Atkins filed one late report with respect to one transaction, Alexander S. Hewitt filed one late report with respect to one transaction, Jerry J. Tepper filed one late report with respect to one transaction and Harry P. Gelles filed one late report with respect to one transaction. In making these statements, we have relied upon the written representations of our directors and officers and our review of the monthly statements of changes filed with us by our officers and directors.

INDEPENDENT PUBLIC ACCOUNTANTS

The firm of KPMG LLP serves as our independent public accountants. The Audit Committee, in its discretion, may direct the appointment of different public accountants at any time during the year if the Audit Committee believes that a change would be in the best interests of our stockholders. The Audit Committee has considered the Audit Fees, Financial Information Systems Design and Implementation Fees and other fees paid to KPMG LLP, as discussed below, and has determined that the payment of such fees is compatible with maintaining the independence of KPMG LLP.

A representative of KPMG LLP is expected to be at the annual meeting and will have the opportunity to make a statement if he or she desires to do so, and will be expected to respond to appropriate questions.

Audit Fees

We have agreed to pay KPMG LLP a total of $68,000 for professional services rendered for the audit of AmeriVest s financial statements for the fiscal year ended December 31, 2002 and for their review of the financial statements included in our quarterly reports on Form 10-QSB for the fiscal year ended December 31, 2002.

Financial Information Systems Design and Implementation Fees

KPMG LLP did not perform any professional services during the fiscal year ended December 31, 2002 relating to financial information systems design and implementation.

All Other Fees

We agreed to pay KPMG LLP a total of $117,673 for all other services, which include tax advisory services and audits of significant acquisitions, performed for us during the fiscal year ended December 31, 2002.

Dismissal of Former Independent Accountant

On August 8, 2002, we dismissed Arthur Andersen LLP as our principal accountant. On August 8, 2002, we engaged KPMG LLP as the principal accountant to audit our financial statements. The Board of Directors has recommended and approved these actions.

The accountant s reports of Arthur Andersen LLP on our consolidated financial statements as of and for the years ended December 31, 2001 and December 31, 2000 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. There were no disagreements between management and Arthur Andersen LLP during our two most recent fiscal years or during any subsequent period preceding Arthur Andersen LLP s engagement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure of a nature which if not resolved to the satisfaction of Arthur Andersen LLP would have caused it to make reference in connection with its report to the subject matter of the disagreements.

EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth in summary form the compensation we paid to the executive officers listed below for the year ended December 31, 2002, which executive officers are referred to herein as the Named Executive Officers. From January 1, 2000 to December 31, 2001, we had no employees of our own, and therefore all cash compensation and benefits paid to the Named Executive Officers were paid by SRA. As a result of our purchase of the administrative and property management and accounting services business of SRA effective January 1, 2002, 25 of SRA s 31 employees, including Messrs. Atkins, Knight and Ikenberry, became our employees and managed our day-to-day operations. Messrs. Atkins, Knight and Ikenberry also remained employees of SRA and their 2002 salary obligations were shared between us and SRA such that we were responsible for paying their cash compensation and SRA was responsible for accruing their deferred compensation as a liability of SRA. Effective November 1, 2002, the Advisory Agreement between SRA and us was terminated and at that time the salary obligations of Messrs. Atkins, Knight and Ikenberry became our sole responsibility. See Transactions Between AmeriVest and Related Parties Agreements with Sheridan Realty Advisors, LLC.

	Annual Compensation	
Name and Principal Position	**Fiscal Year**	**Salary (1)**
William T. Atkins Chairman and Chief Executive Officer	2002	$ 78,333
Charles K. Knight President and Chief Operating Officer	2002	$ 126,667
D. Scott Ikenberry Chief Financial Officer	2002	$ 125,000

(1) The dollar value of base salary (cash and non-cash) earned during the year indicated. During 2002, additional amounts of salary were paid to the Named Executive Officers by SRA. No other forms of compensation were paid by us to the Named Executive Officers during 2002.

Option Grants

We did not grant any options or stock appreciation rights during the year ended December 31, 2002.

Aggregated Option Exercises and Year-End Option Value

The following table provides certain summary information concerning stock option exercises during 2002 by the Named Executive Officers and the value of unexercised stock options held by the Named Executive Officers as of December 31, 2002.

Aggregated Option Exercises

For Fiscal Year Ended December 31, 2002

And Year-End Option Values

			Number of Securities Underlying Unexercised Options at Fiscal Year-End (1)		Value of Unexercised In-the-Money Options at Fiscal Year-End (2)	
Name	**Shares Acquired on Exercise**	**Value Realized**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
William T. Atkins			12,000		$ 16,644	
Charles K. Knight	12,000	$ 15,204				
D. Scott Ikenberry						

(1) The total number of unexercised options held as of December 31, 2002, separated between those options that were exercisable and those options that were not exercisable on that date.

(2) For all unexercised options held as of December 31, 2002, the aggregate dollar value of the excess of the market value of AmeriVest s common stock underlying those options over the exercise price of those unexercised options. These values are shown separately for those options that were exercisable, and those options that were not yet exercisable, on December 31, 2002. As required, the price used to calculate these figures was the closing sale price of AmeriVest s common stock at year s end, which was $6.20 per share on December 31, 2002.

Employment, Termination of Employment and Change-in-Control Arrangements

There are no employment, severance, separation or change-in-control agreements with Named Executive Officers.

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2002. Information is included for both equity and compensation plans approved by our stockholders and equity compensation plans not approved by our stockholders.

Plan Category	Shares of Common Stock to Be Issued Upon Exercises of Outstanding Options, Warrants and Rights	Weighted-Average of Exercise Price of Outstanding Options, Warrants and Rights	Shares of Common Stock Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Equity Compensation Plans Approved by Stockholders	158,000	$ 5.04	95,000
Equity Compensation Plans not Approved by Stockholders			
Totals	158,000	$ 5.04	95,000

Stock Option Plans

Pursuant to our 1995 and 1998 Stock Option Plans, we may grant options to purchase an aggregate of 330,000 shares of common stock to key employees, directors, and other persons who have or are contributing to the success of the company. The options granted pursuant to the 1995 Stock Option Plan may be incentive options qualifying for beneficial tax treatment for the recipient or they may be non-qualified options. The options granted pursuant to the 1998 Stock Option Plan may be incentive options qualifying for beneficial tax treatment for the recipient, non-qualified options, or non-qualified non-discretionary options. The terms of the 1998 Stock Option Plan concerning incentive options and non-qualified options are substantially the same as those of the 1995 Stock Option Plan except that only our employees or employees of subsidiaries are eligible for incentive options, and employees and other persons who have contributed or are contributing to our success are eligible for non-qualified options.

Directors who are not employees of the company automatically receive options to purchase 12,000 shares pursuant to the 1998 Stock Option Plan at the time of their election. None of these options are exercisable at the time of grant. One-third of these options become exercisable on December 30 of each of the first three years immediately following the date of grant. The exercise price for options granted to outside directors is the fair market value of the common stock on the date of grant, and all options granted to outside directors expire five years from the date of grant. On the date that all of an outside director s options have become exercisable, options to purchase an additional 12,000 shares, none of which is exercisable at that time, shall be granted to that outside director.

At December 31, 2002, options to purchase an aggregate of 95,000 shares of common stock were available under the option plans. The option committee or the Board may grant additional options to purchase 32,000 shares pursuant to the 1995 Stock Option Plan and 63,000 shares pursuant to the 1998 Stock Option Plan.

All options granted under the 1998 Stock Option Plan will become fully exercisable upon the occurrence of a change in control of AmeriVest upon certain mergers or other reorganizations or asset sales.

Options granted under either the 1995 Stock Option Plan or the 1998 Stock Option Plan generally are not transferable during the option holder s lifetime.

Sheridan Realty Advisors, LLC s Warrants

Under the Advisory Agreement that we had entered into with SRA, SRA received compensation designed to provide an incentive for its performance in the form of an advisory fee based on new real property acquisitions and warrants to purchase up to 750,000 shares of our common stock at $5.00 per share until January 1, 2005. In connection with a Severance Protection Agreement dated January 1, 2000 between AmeriVest and James F. Etter, a director and former President and Chief Executive Officer of AmeriVest, 15,000 of these warrants were transferred to Mr. Etter. On March 28, 2003, SRA transferred an additional 25,000 of these warrants in equal amounts of 12,500 warrants to each of Messrs. Ikenberry and Knight in connection with the redemption of their membership interests in SRA as of January 1, 2003. All of the warrants have vested and may be exercised at any time until January 1, 2005. On March 28, 2003, SRA exercised 210,000 warrants for 210,000 shares of common stock in exchange for the satisfaction of $1,050,000 in amounts owed to SRA from AmeriVest, which represented unpaid fees and unreimbursed payroll costs. On March 28, 2003, an additional 240,000 warrants were transferred to Alexander S. Hewitt, who subsequently exercised the warrants for 240,000 shares of common stock in exchange for $1,200,000 in cash. At March 31, 2003, SRA held the remaining 260,000 unexercised warrants.

Compensation of Outside Directors

In 2002, we compensated our outside directors at a rate of $1,500 per quarter. We also reimburse our directors for expenses incurred in attending meetings and for other expenses incurred on our behalf. In addition, during 2002 and currently, each director who is not our employee automatically receives non-qualified, non-discretionary options to purchase shares of common stock under the 1998 Stock Option Plan. See Stock Option Plans above.

BENEFICIAL OWNERS OF SECURITIES

As of March 28, 2003, there were 11,542,713 shares of our common stock outstanding. The following table sets forth certain information as of that date with respect to the beneficial ownership of our common stock by each director and Named Executive Officer, by all executive officers and directors as a group, and by each other person known by us to be the beneficial owner of more than five percent of our common stock.

Name and Address of Beneficial Owners	Number of Shares Beneficially Owned (1)	Percentage of Shares Outstanding
William T. Atkins 1780 South Bellaire Street, Suite 100 Denver, Colorado 80222	2,011,457(2)	17.0%
Patrice Derrington 45 Rockefeller Plaza, 33rd Floor New York, New York 10111	140,500(3)	1.2%
James F. Etter 31401 Shadow Mountain Drive Conifer, Colorado 80433	94,000(4)	*
Harry P. Gelles 1114 State Street, Suite 236 Santa Barbara, California 93101	18,872(5)	*
Alexander S. Hewitt 1780 South Bellaire Street, Suite 100 Denver, Colorado 80222	2,300,682(6)	19.5%
Robert W. Holman, Jr. P.O. Box 8 Pebble Beach, California 93921	17,150(7)	*
D. Scott Ikenberry 1780 South Bellaire Street, Suite 100 Denver, Colorado 80222	28,843(8)	*
Charles K. Knight 1780 South Bellaire Street, Suite 100 Denver, Colorado 80222	58,146(9)	*

John A. Labate 14909 Falls Road Butler, Maryland 21023	32,000(10)	*
Jerry J. Tepper 7201 North Sheridan Arvada, Colorado 80003	472,000(11)	4.1%
All Officers and Directors as a Group (11 persons)	3,213,777(2-11)	26.9%
Sheridan Investments, LLC 1780 South Bellaire Street, Suite 100 Denver, Colorado 80222	1,297,790(12)	11.2%

* Less than one percent

(1) Beneficial ownership is defined in the regulations promulgated by the SEC as having or sharing, directly or indirectly, (1) voting power, which includes the power to vote, or to direct the voting of, shares of the common stock of an issuer, or (2) investment power, which includes the power to dispose, or to direct the disposition of, shares of the common stock of an issuer. The definition of beneficial ownership includes shares underlying options or warrants to purchase common stock, or other securities convertible into common stock, that currently are exercisable or convertible or that will become exercisable or convertible within 60 days. Unless otherwise indicated, the beneficial owner has sole voting and investment power.

(2) Includes the following shares which may be deemed to be beneficially owned by Mr. Atkins due to the relationship set forth opposite each entry. Mr. Atkins disclaims beneficial ownership of 1,306,803 shares.

Number of Shares	**Nature of Ownership**
28,325	The shares are owned directly by Mr. Atkins.
70,938	The shares are owned by Rock River Trust Company, or RRTC, in RRTC s capacity as trustee of various trusts. Mr. Atkins is a director of RRTC but does not vote on any matters concerning RRTC s acquisition, voting or disposition of AmeriVest s securities. The 70,938 shares are included three times in the table for each of Mr. Atkins, Mr. Hewitt and for all officers and directors as a group.
75,829	The shares are owned by Sheridan Realty Corp., in which Mr. Atkins holds a direct interest. The 75,829 shares are included three times in the table for each of Mr. Atkins, Mr. Hewitt and for all officers and directors as a group.
1,297,790	The shares are owned by Sheridan Investments. Mr. Atkins holds indirect interests in Sheridan Investments through several of its members and holds an approximately 25% interest in, and is co-manager and President of, Sheridan Development, its manager. The 1,297,790 shares are included four times in the table for each of Mr. Atkins, Mr. Hewitt, Sheridan Investments and for all officers and directors as a group.
266,337	The shares are owned by SRA, in which Mr. Atkins holds a 50% interest and is a managing member. The 266,337 shares are included three times in the table for each of Mr. Atkins, Mr. Hewitt and for all officers and directors as a group.
260,000	The shares are issuable upon the exercise of currently exercisable warrants held by SRA. The 260,000 shares are included three times in the table for each of Mr. Atkins, Mr. Hewitt and for all officers and directors as a group.
12,000	The shares are issuable upon the exercise of currently exercisable options held by Mr. Atkins.
238	The shares are held by Mr. Atkins minor children.

Mr. Atkins and Mr. Hewitt have entered into an agreement providing that, unless and until either person decides otherwise, each will conduct his activities with respect to our securities as if the two of them are a group under the Securities Exchange Act of 1934.

(3) Includes 133,500 shares held by Victory Real Estate Fund and 7,000 shares held by Stark County Foundation Real Estate Fund, for both of which Ms. Derrington is the portfolio manager with full discretion.

(4) Includes 21,000 shares owned directly by Mr. Etter and 73,000 shares underlying currently exercisable options and warrants held by Mr. Etter.

(5) Includes 4,872 shares owned directly by Mr. Gelles and 14,000 shares underlying currently exercisable options and warrants held by Mr. Gelles.

(6) Includes the following shares which may be deemed to be beneficially owned by Mr. Hewitt due to the relationship set forth opposite each entry. Mr. Hewitt disclaims beneficial ownership of 1,271,528 shares.

Number of Shares	**Nature of Ownership**
329,243	The shares are owned by the Alexander S. Hewitt Revocable Trust, or the Hewitt Trust, for which Mr. Hewitt is a trustee and beneficiary.
70,938	The shares are owned by RRTC in RRTC s capacity as trustee of various trusts. Mr. Hewitt is a director of RRTC and a beneficiary of some of these trusts, but does not vote on any matters concerning RRTC s acquisition, voting or disposition of AmeriVest s securities. The 70,938 shares are included three times in the table for each of Mr. Hewitt, Mr. Atkins and for all officers and directors as a group.
75,829	The shares are owned by Sheridan Realty Corp., in which Mr. Hewitt holds an indirect interest through a trust. The 75,829 shares are included three times in the table for each of Mr. Hewitt, Mr. Atkins and for all officers and directors as a group.

Number of Shares	Nature of Ownership
1,297,790	The shares are owned by Sheridan Investments. Mr. Hewitt holds indirect interests in Sheridan Investments through several of its members. The 1,297,790 shares are included four times in the table for each of Mr. Hewitt, Mr. Atkins, Sheridan Investments and for all officers and directors as a group.
266,337	The shares are owned by SRA, in which Mr. Hewitt holds a 50% interest and is a managing member. The 266,337 shares are included three times in the table for each of Mr. Hewitt, Mr. Atkins and for all officers and directors as a group.
260,000	The shares are issuable upon the exercise of currently exercisable warrants held by SRA. The 260,000 shares are included three times in the table for each of Mr. Hewitt, Mr. Atkins and for all officers and directors as a group.
545	The shares are issuable upon the exercise of warrants held by Mr. Hewitt. Mr. Hewitt and Mr. Atkins have entered into an agreement providing that, unless and until either person decides otherwise, each will conduct his activities with respect to our securities as if the two of them are a group under the Securities Exchange Act of 1934.

(7) Includes 17,150 shares owned directly by Mr. Holman.

(8) Includes 16,343 shares owned directly by Mr. Ikenberry and 12,500 shares underlying currently exercisable warrants held by Mr. Ikenberry.

(9) Includes 43,798 shares owned directly by Mr. Knight, 14,000 shares underlying currently exercisable warrants held by Mr. Knight and 348 shares held by his minor children.

(10) Includes 12,000 shares owned directly by Mr. Labate and 20,000 shares underlying currently exercisable options held by Mr. Labate.

(11) Includes 40,000 shares owned directly by Mr. Tepper, 420,000 shares owned directly by investment companies which are controlled by Mr. Tepper and 12,000 shares underlying currently exercisable options held by Mr. Tepper.

(12) These shares are included four times in the table for each of Sheridan Investments, Mr. Atkins, Mr. Hewitt and all officers and directors as a group.

TRANSACTIONS BETWEEN AMERIVEST AND RELATED PARTIES

This section describes the transactions we have engaged in with our current, past and nominated directors and current and past officers and persons known by us to be the beneficial owners of 5% or more of our common stock during the past two fiscal years.

Relationships among AmeriVest and Various Sheridan Group Entities

All of our executive officers and three of our directors have been officers, directors or investors in various real estate investment companies that are related to SRA, our former administrator and advisor. These partnerships, corporations and limited liability companies have collectively been known as The Sheridan Group. All of the related party transactions described in this section concern these individuals and entities. The following table describes our officers and directors who have relationships with The Sheridan Group:

Name	Positions with AmeriVest
William T. Atkins	Chief Executive Officer, Director and Chairman of the Board
Charles K. Knight	President, Chief Operating Officer and Director
John B. Greenman	Vice President
Alexander S. Hewitt	Vice President and Secretary
D. Scott Ikenberry	Chief Financial Officer
Robert W. Holman, Jr.	Director

The following table describes the various entities within The Sheridan Group which previously had or currently have a relationship with AmeriVest as described elsewhere in this section, the nature of that relationship and the ownership and position of AmeriVest officers, directors and principal stockholders in each entity in The Sheridan Group.

Sheridan Group Entity	Primary Relationship to AmeriVest	Ownership of Sheridan Group Entity	Management of Sheridan Group Entity
Sheridan Realty Advisors, LLC	Former administrator and advisor and stockholder(1)	William T. Atkins 50% Hewitt Trust (for which Alexander S. Hewitt is a trustee) 50%	Mr. Atkins Chairman and Co-Manager Mr. Hewitt Vice Chairman and Co-Manager
Sheridan Realty Corp.	Stockholder(2)	William T. Atkins 16.5% Hewitt Trust 20% Robert W. Holman, Jr. 5%	Mr. Atkins President and Director Mr. Hewitt Executive Vice President and Director Mr. Holman Director Mr. Ikenberry Chief Financial Officer and Director
Sheridan Investments, LLC	Stockholder(3)	Atkins Ltd. Partnership 14.056% Hewitt Trust 16.064% Sheridan Management Corp. 8.835% Sheridan Development LLC incentive interest	Sheridan Development, LLC Manager
Sheridan Management Corp.	None	William T. Atkins 50% Hewitt Trust 50%	Mr. Atkins President and Director Mr. Hewitt Executive Vice President and Director
Sheridan Development, LLC	None	William T. Atkins 25.05% Hewitt Trust 25.05% D. Scott Ikenberry 15% Charles K. Knight 14.9%	Mr. Atkins Co-Manager and President Mr. Knight Vice President

(1) Directly owns 266,337 shares and is deemed to beneficially own 260,000 shares underlying currently exercisable warrants held by SRA. On March 28, 2003, shares of our common stock and warrants owned by SRA were transferred to Messrs. Ikenberry, Knight and Greenman in exchange for each of their 20% membership interests in SRA. Messrs. Ikenberry and Knight each received 11,021 shares of common stock and 12,500 warrants and Mr. Greenman received 11,021 shares of common stock. SRA received an advisory and capital project fee, as well as warrants, for those services under the terms of our agreement with them, which was terminated on November 1, 2002. See Agreement with Sheridan Realty Advisors, LLC. Includes 89,400 shares purchased by SRA in our 2001 public offering.

(2) Directly owns 75,829 shares.

(3)

Directly owns 1,297,790 shares, including 16,305 shares issued in connection with the acquisition of a key man life insurance policy on our Chairman and CEO, 1,057,346 shares issued in connection with our acquisition of Sheridan Plaza at Inverness, LLC and 100,000 shares purchased in our 2001 public offering. See Asset Purchases and Sales Purchase of Sheridan Plaza at Inverness, LLC below. Because Internal Revenue Code rules concerning the determination of ownership for purposes of qualifying as a REIT differ from the SEC beneficial ownership rules, Sheridan Investments beneficial ownership shown in this table will not cause a violation of Internal Revenue Service rules concerning REIT share ownership.

For a description of the beneficial ownership of our shares by each of Messrs. Atkins, Hewitt, Holman and Knight and by Sheridan Investments, see Beneficial Owners of Securities.

Asset Purchases and Sales

Keystone Land Acquisition

On September 6, 2002, we acquired 2.55 acres of undeveloped land, adjacent to Keystone Office Park in Indianapolis, Indiana, from Sheridan Realty Partners, L.P. for $320,000. The purchase price was determined based on the fair market value of the land and was paid through the issuance of 52,893 shares of our common stock ($6.05 per share). In late 2002, we commenced construction of a 18,000 square foot building on this land.

Purchase of Sheridan Plaza at Inverness, LLC

On June 25, 2001, we purchased 100% of the ownership interests of Sheridan Plaza at Inverness, LLC from Sheridan Investments. Sheridan Plaza at Inverness, LLC owns two office buildings (which are now known as AmeriVest Plaza at Inverness) located in Englewood, Colorado consisting of 118,720 rentable square feet on 6.7 acres of land with 405 total parking spaces, including 80 underground parking spaces. The purchase price was $22,895,067, which consisted of:

- $705,135 for our 9.639% preferred membership interest in Sheridan Investments, LLC, the owner of all of the membership interests in Sheridan Plaza at Inverness LLC, which was transferred back to Sheridan Investments, LLC;
- $6,474,329 paid with (1) 1,057,346 shares of our common stock at a price of $5.69 per share (based on an average market price of the shares over a period of several days before and after the date of the announcement of the acquisition) and (2) the cash proceeds of $458,030 from the sale of the Giltedge building;
- assumption of the mortgage loan in the amount of $14,954,425; and
- assumption of other liabilities in the approximate amount of $761,178.

The acquisition was structured as a tax-deferred exchange of the Giltedge building under Section 1031 of the Internal Revenue Code. Due to the related party nature of this transaction, accounting principles generally accepted in the United States require us to record this acquisition at its historical net book value. The difference between the purchase price and the historical net book value was $4,507,557 and has been recorded as a non-cash deemed dividend during 2001. We received stockholder approval for this transaction at a meeting held June 20, 2001. As a result of the completion of this transaction, SRA was paid a fee of $294,000 in accordance with the Advisory Agreement.

Sale of Interest in Panorama Falls Building

On December 6, 2001, we completed the sale of an undivided 80% interest in the Panorama Falls building to Freemark Abbey Panorama, LLC. A partner in Freemark Abbey is an indirect beneficial owner of approximately 9% of Sheridan Investments, LLC, which is the beneficial owner of approximately 11.2% of our common stock. The aggregate sale price for the interest in Panorama Falls was $4,880,000 payable by the Freemark Abbey as follows:

- $2,180,000 to KeyBank National Association to pay down a portion of the existing mortgage loan;
- assumption of 80% of the remaining mortgage loan in the amount of $2,395,732; and
- the remainder of $304,268, less closing costs, in cash to us.

We retained a 20% interest in the property and will continue to operate and manage the property. We will earn a management fee equal to 5% of the gross collected rents and an incentive fee from Freemark Abbey based

on the total return of the investment. The incentive fee is calculated as 25% of the cash remaining after both parties have received distributions equal to their initial investments in the property plus a 12% annually compounded cumulative return.

Agreement with Sheridan Realty Advisors, LLC

Effective January 1, 2000 through December 31, 2001, all of our properties were managed under an Advisory Agreement with SRA, which also managed our day-to-day operations and assisted and advised the Board of Directors on real estate acquisitions and investment opportunities. SRA is owned by two of our executives, William T. Atkins and Alexander S. Hewitt. Effective January 1, 2002, we acquired the administrative and property management and accounting services business of SRA for approximately $50,000, which resulted in us employing most of SRA s employees and the elimination of the related fees. Furthermore, effective November 1, 2002, we terminated the Advisory Agreement in accordance with the Termination of Advisory Agreement entered into on December 27, 2002.

In accordance with the Advisory Agreement, SRA received an administrative fee, a property management and accounting fee, an advisory fee and a capital project fee for these services. The property management fee was calculated as 5% of gross collected rents, the advisory fee was calculated as 5% of capital deployed for real property acquisitions and the capital project fee was calculated as 3% of the total cost of capital projects in excess of $100,000. The following is a detail of the fees for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Administrative fee	$	$ 199,080	$ 189,600
Property management and accounting fee		408,319	244,022
Advisory fee	1,267,380	898,005	141,180
Capital project fee	100,000	188,259	
Total	$ 1,367,380	$ 1,693,663	$ 574,802

Due to the amendment of the Advisory Agreement effective January 1, 2002 whereby certain SRA employees became our employees, the advisory and capital project fees were expensed in 2002. Prior to January 1, 2002, these fees were capitalized. Additionally, due to the termination of the Advisory Agreement effective November 1, 2002 whereby all remaining SRA employees became our employees, these fees have been eliminated.

At December 31, 2002 and 2001, we had a payable due to SRA of $1,051,390 and $494,531, respectively, which consisted of unpaid fees and unreimbursed payroll costs.

In addition, SRA received incentive compensation in the form of five-year warrants to purchase up to 750,000 shares of common stock at $5.00 per share. Issuance of the warrants was approved by the shareholders at the annual meeting on June 6, 2000. According to the Advisory Agreement, 225,000 of these warrants were granted and vested on the approval date. The remaining 525,000 warrants vested in an amount equal to 2.1% of capital deployed for real property acquisitions. At December 31, 2002, all of the remaining 525,000 warrants were vested.

In 2002 and 2001, our five executive officers earned aggregate cash or deferred compensation of $440,000 and $780,000, respectively, from SRA, with each executive officer receiving compensation paid or deferred in excess of $100,000 in each year. We agreed to assume sponsorship

of, and all assets of and liabilities attributable to, the transferred employees under the employee benefit plans of SRA. The three senior executives who became our employees, William T. Atkins, our Chief Executive Officer, Charles K. Knight, our President, and D. Scott Ikenberry, our Chief Financial Officer, also remained employees of SRA during 2002 and their 2002 salary obligations were shared between us and SRA such that we paid their cash compensation and SRA accrued their deferred compensation as a liability of SRA.

Line of Credit with Sheridan Investments, LLC

On June 13, 2001, our Board of Directors approved our obtaining a $500,000 one-year line of credit from Sheridan Investments. On March 11, 2002, the Board approved an increase in this line of credit to $1,500,000. During 2002, this line of credit was terminated. This line of credit was unsecured and had a rate of interest equal to 75 basis points above the prevailing prime rate charged by Ferris, Baker Watts.

Conflicts of Interest Policies

Our Board of Directors and our officers are subject to certain provisions of Maryland law which are designed to eliminate or minimize the effects of certain potential conflicts of interest. In addition, the By-Laws provide that any transaction between us and an interested party must be fully disclosed to our Board, and that a majority of the directors not otherwise interested in the transaction (including a majority of independent directors) must make a determination that any sale, lease or joint venture transaction is fair and reasonable and that any loan or equity investment transaction is fair, competitive and commercially reasonable and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

All future transactions between us and our officers, directors and 5% stockholders will be on terms no less favorable than could be obtained from independent third parties and will be approved by a majority of independent, disinterested directors of AmeriVest. We believe that by following these procedures, AmeriVest will be able to mitigate the possible effects of these conflicts of interest.

Other than as described in this section, there are no material relationships between us and our directors, executive officers or known holders of more than 5% of our common stock.

PROPOSAL NO. 2 ARTICLES OF AMENDMENT AND RESTATEMENT

We are governed by our Articles of Incorporation, dated June 25, 1999, as amended (the Old Charter). The Board of Directors is proposing to amend and restate the Old Charter to increase the authorized capital that may be issued from time-to-time by us and to include the provisions currently contained in the By-Laws relating to both (i) ownership limitations intended to ensure our continued qualification as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code), and (ii) the indemnification of our directors, officers, employees and agents. These proposed provisions are described in more detail in the summary of the New Charter contained below. The Board of Directors has unanimously approved the New Charter in the form attached as Annex I. The following description, which summarizes some of the most significant changes in the New Charter, is qualified in its entirety by reference to the form of New Charter attached as Annex I.

The affirmative vote of holders of at least a majority of the shares of common stock entitled to vote thereon is required to approve this proposal. For purposes of the approval of the New Charter, abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum.

Increase in Authorized Capital Stock

Pursuant to the Old Charter, we are authorized to issue 15,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of preferred stock, $0.001 par value. The New Charter would authorize the issuance of 75,000,000 shares of common stock. The New Charter would not increase the authorized number of shares of preferred stock that could be issued thereunder.

Restriction on Size of Holdings of Shares

The New Charter would include and update the transfer restrictions that are currently contained in the By-Laws. The Board of Directors believes these changes are desirable in order to preserve more clearly our ability to qualify as a REIT for federal income tax purposes.

For us to qualify as a REIT under the Code, no more than 50% in value of our shares of capital stock (after taking into account options to acquire shares of capital stock) may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities and constructive ownership among specified family members) during the last half of a taxable year (other than the first taxable year) or during a proportionate part of a short taxable year. Our shares of capital stock must also be beneficially owned (other than during the first taxable year) by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year.

The New Charter provides, subject to certain exceptions specified therein, that no holder would be permitted to own, or be deemed to own by virtue of the attribution provisions of the Code more than 9.0% in number of shares of capital stock or value, of our outstanding shares of capital stock (the Ownership Limit). Any transfer of our shares of capital stock that would (i) create a direct or indirect ownership of our shares of capital stock in excess of the Ownership Limit, (ii) result in our shares of capital stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution) as provided in Section 856(a) of the Code or (iii) cause us to become closely held within the meaning of Section 856(h) of the Code, shall be null and void *ab initio*, and the intended transferee will acquire no rights to the shares of capital stock that would cause the foregoing restrictions to be violated. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. Although the Board of Directors has granted limited waivers of these restrictions with respect to certain stockholders in the past, and may do so in the future, we intend to enforce the 9.0% limitation on ownership of shares to the extent necessary to assure that our qualification as a REIT will not be compromised.

Any shares the purported transfer of which would result in a person owning our shares of capital stock in excess of the Ownership Limit or cause us to become closely held under Section 856(h) of the Code that is not otherwise permitted as provided above will constitute excess shares (Excess Shares), which will be transferred pursuant to the New Charter to a party not affiliated with us designated by us as the trustee of a trust for the exclusive benefit of an organization or organizations described in Sections 170(b)(1)(A) and 170(c) of the Code and identified by the Board of Directors as the beneficiary or beneficiaries of the trust (the Charitable Beneficiary), until such time as the Excess Shares are transferred to a person whose ownership will not violate the restrictions on ownership. While these Excess Shares are held in trust, distributions on such Excess Shares will be paid to the trust for the benefit of the Charitable Beneficiary and may only be voted by the trustee for the benefit of the Charitable Beneficiary. Subject to the Ownership Limit, the Excess Shares will be transferred by the trustee at our direction to any person (if the Excess Shares would not be Excess Shares in the hands of such person). The purported transferee will receive the lesser of (i) the price paid by the purported transferee for the Excess Shares (or, if no consideration was paid, fair market value on the day of the event causing the Excess Shares to be held in trust) and (ii) the price received from the sale or other disposition of the Excess Shares held in trust. Any proceeds in excess of the amount payable to the purported transferee will be paid to the Charitable Beneficiary. In addition, such Excess Shares held in trust are subject to purchase by us for a 90-day period at a purchase price equal to the lesser of (i) the price paid for the Excess Shares by the purported transferee (or, if no consideration was paid, fair market value at the time of the event causing the shares to be held in trust) and (ii) the fair market value of the Excess Shares on the date we elect to purchase. Fair market value, for these purposes, means the last reported sales price reported on the American Stock Exchange (AMEX) on the trading day immediately preceding the relevant date, or if not then traded on AMEX, the last reported sales price on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over or through which the relevant class of shares of capital stock may be traded, or if not then traded over or through any exchange or quotation system, then the market price on the relevant date as determined in good faith by the Board of Directors.

From and after the purported transfer to the purported transferee of the Excess Shares, the purported transferee will cease to be entitled to distributions (other than liquidating distributions), voting rights and other benefits with respect to the Excess Shares except the right to payment on the transfer of the Excess Shares as

described above. Any distribution paid to a purported transferee of Excess Shares prior to the discovery by us that such Excess Shares have been transferred in violation of the provisions of the New Charter will be repaid, upon demand, to us, which will pay any such amounts to the trust for the benefit of the Charitable Beneficiary. If the foregoing transfer restrictions are determined to be void, invalid or unenforceable by any court of competent jurisdiction, then the purported transferee of any Excess Shares may be deemed, at our option, to have acted as an agent on our behalf in acquiring such Excess Shares and to hold such Excess Shares on our behalf.

All persons who own, directly or by virtue of the attribution provisions of the Code, more than 1% (or such other percentage between 0.5% and 5%, as provided in the rules and regulations promulgated under the Code) of the number or value of our outstanding shares of capital stock must give a written notice containing certain information to us by January 31 of each year. In addition, each stockholder is upon demand required to disclose to us in writing such information with respect to the direct, indirect and constructive ownership of our shares of capital stock as the Board of Directors deems reasonably necessary to comply with the provisions of the Code applicable to a REIT, to determine our status as a REIT, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The ownership limitation provisions under the New Charter are designed to assist in protecting and preserving our REIT status and to protect the interest of stockholders in takeover transactions by preventing the acquisition of a substantial block of shares of capital stock unless the acquirer makes a cash tender offer for all outstanding shares or receives the prior approval of the Board of Directors. It is possible, however, that the limitations could have the effect of discouraging a takeover or other transaction in which holders of some, or a majority, of our shares of capital stock might receive a premium for their shares of capital stock over the then prevailing market price or which such holders might believe to be otherwise in their best interest.

The Old Charter does not currently contain ownership restrictions or limitations, although the By-Laws currently contain ownership restrictions or limitations substantially identical to those provided in the New Charter. If the New Charter is adopted, the Board of Directors has determined to amend the By-Laws to delete the ownership restrictions and limitations set forth therein to eliminate redundancy and ambiguity.

Indemnification of Directors and Officers

Maryland General Corporation Law permits a corporation to indemnify or advance expenses to its directors, officers, employees and agents. Under the New Charter, we would be required to indemnify each director and officer (and would be permitted to indemnify each employee and agent) to the fullest extent permitted by Maryland law, as amended from time to time, in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she was a director or officer (or our employee or agent if so indemnified) or is or was serving at our request as a director, officer, partner, employee or agent of another foreign or domestic corporation, partnership, limited liability company, joint venture, trust, other enterprise or employee benefit plan, from all claims and liabilities to which such person may become subject by reason of service in such capacity and to pay or reimburse reasonable expenses, as such expenses are incurred, of each director, officer, employee or agent in connection with any such proceedings. The Board of Directors believes that the indemnification provision will enhance our ability to attract and retain superior directors, officers, employees and agents, and the indemnification provisions are being included in the New Charter to clarify and further define the indemnification of our directors officers, employees and agents under Maryland law.

The Old Charter does not contain any provisions regarding the indemnification of AmeriVest s directors, officers, employees and agents. However, such indemnification provisions are currently included in the By-Laws. The By-Laws currently provide that AmeriVest shall indemnify each director, officer, employee and agent of AmeriVest or its subsidiaries to the fullest extent permitted by Maryland law.

PROPOSAL NO. 3 AMERIVEST PROPERTIES INC. 2003 LONG-TERM INCENTIVE PLAN

A proposal will be presented at the Annual Stockholders Meeting to approve the AmeriVest Properties Inc. 2003 Long-Term Stock Incentive Plan (the Plan). The Plan was approved by the Board of Directors on March 11, 2003, subject to stockholder approval. A summary of the material provisions of the Plan is set forth below. A copy of the Plan is set forth in Annex II.

The Plan became effective January 1, 2003, subject to the approval by the stockholders. If approved, the Plan will continue in effect until terminated by the Board of Directors; provided, however, that no awards may be granted under the Plan after the ten-year anniversary of the effective date (except for awards granted pursuant to commitments entered into prior to such ten-year anniversary). However, any awards that are outstanding after Plan termination shall remain subject to the terms of the Plan.

The affirmative vote of holders of at least a majority of the shares of common stock entitled to vote thereon is required to approve this proposal. For purposes of the approval of the Plan, abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum.

Purpose

We have established the Plan to

- attract and retain persons eligible to participate in the Plan;
- motivate Participants (as defined below), by means of appropriate incentives, to achieve long-range goals;
- provide incentive compensation opportunities that are competitive with those of companies similar to us; and
- further identify Participants interests with those of our other stockholders through compensation that is based on common stock;

and thereby promote our long-term financial interest, including the growth in value of the our equity and enhancement of long-term stockholder return.

We have proposed the Plan at this time because we believe in the merits of linking executives overall compensation opportunities to the enhancement of long-term stockholder return. We use equity-based compensation, such as options and other common stock related awards, as key elements of our executives compensation packages. Because we believe it is important for our employees to have an equity interest in AmeriVest, the Board of Directors has approved the Plan, and is recommending it to stockholders for approval. We have previously established a set of compensation objectives aimed at increasing officer common stock ownership. Adoption of the Plan will help achieve this goal and is necessary in order for us to continue making equity awards to our employees at competitive levels.

To achieve these objectives, the Plan provides for the grant of non-qualified and incentive stock options, stock appreciation rights (SARs), bonus stock, stock units, performance shares, performance units, restricted stock, and restricted stock units.

General

The Plan is administered by a committee of the Board of Directors. The committee selects from the eligible individuals those persons to whom awards under the Plan will be granted (Participants), the types of awards to be granted and the applicable terms, conditions, performance criteria, restrictions and other provisions of such

awards. The committee may delegate all or any portion of its responsibilities or powers under the Plan to persons selected by it, except to the extent inconsistent with Rule 16b-3 promulgated under section 16 of the Securities Exchange Act of 1934 or other applicable rules. Rule 16b-3 exempts employee plan transactions meeting certain requirements from the short-swing trading profit recovery provisions of section 16.

No more than 500,000 shares of common stock may be delivered to Participants and their beneficiaries under the Plan. Any shares of common stock allocated to an award that expires, lapses, is forfeited or terminated for any reason without issuance of the shares of common stock (whether or not cash or other consideration is paid to the Participant in respect of such shares of common stock) may again become subject to awards under the Plan.

The following additional limits apply to awards under the Plan:

- no more than 250,000 shares of common stock may be issued for options and SARs granted to any one individual in any calendar-year period;
- no more than 250,000 shares of common stock may be issued for bonus stock, stock unit awards, performance share awards, performance unit awards, restricted stock awards, and restricted stock unit awards that are intended to be performance-based compensation (as described below) granted to any one individual during any calendar-year period;
- no more than $1,000,000 that is intended to be performance-based compensation (as described below) may be paid to any one individual for any annual performance period.

The common stock with respect to which awards may be made under the Plan shall be shares of common stock currently authorized but unissued, or currently held or subsequently acquired by us as treasury shares, including shares of common stock purchased in the open market or in private transactions. At the discretion of the committee, an award under the Plan may be settled in cash rather than common stock. The closing price with respect to the common stock on March 28, 2003 was $6.16 per share.

The committee may use shares of common stock available under the Plan as the form of payment for compensation, grants or rights earned or due under any of our other compensation plans or arrangements, including any plans and arrangements assumed in business combinations.

In the event we are involved in a corporate transaction (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares of common stock), the committee may adjust awards to preserve the benefits or potential benefits of the awards. Action by the committee may include:

- adjustment of the number and kind of shares which may be delivered under the Plan;
- adjustment of the number and kind of shares subject to outstanding awards; and
- adjustment of the exercise price of outstanding options and SARs.

The committee may make any other adjustments that the committee determines to be equitable which may include, without limitation,

- replacement of awards with other awards which the committee determines have comparable value and which are based on stock of a company resulting from the transaction, and

- cancellation of the award in return for cash payment of the current value of the award, determined as though the award is fully vested at the time of payment, provided that in the case of an option, the amount of such payment may be the excess of value of the common stock subject to the option at the time of the transaction over the exercise price.

Except as otherwise provided by the committee, awards under the Plan are not transferable except as designated by the Participant by will or by laws of descent and distribution.

All of our employees and all directors are eligible to become Participants in the Plan. As of March 28, 2003, we had 34 employees. The specific employees who initially will be granted awards under the Plan and the type and amount of any such awards will be determined by the committee.

Options

The committee may grant options to purchase our common stock which may be either incentive stock options or non-qualified stock options. The purchase price of a share of common stock under each option shall not be less than the fair market value of a share of common stock on the date the option is granted. The option shall be exercisable in accordance with the terms established by the committee. The full purchase price of each share of common stock purchased upon the exercise of any option shall be paid at the time of exercise. Except as otherwise determined by the committee, the purchase price shall be payable in cash or in common stock (valued at fair market value as of the day of exercise), or in any combination thereof. The committee, in its discretion, may impose such conditions, restrictions, and contingencies on common stock acquired pursuant to the exercise of an option as the committee determines to be desirable.

Stock Appreciation Rights

The committee may grant an SAR in connection with all or any portion of a previously or contemporaneously granted option or independent of any option grant. An SAR entitles the Participant to receive the amount by which the fair market value of a specified number of shares of common stock on the exercise date exceeds an exercise price established by the committee, which shall not be less than the fair market value of the common stock at the time the SAR is granted. Such excess amount shall be payable in common stock, in cash, or in a combination thereof, as determined by the committee. The committee, in its discretion, may impose such conditions, restrictions, and contingencies on common stock acquired pursuant to the exercise of an SAR as the committee determines to be desirable.

Other Stock Awards

The committee may grant bonus stock (a grant of shares of common stock in return for previously performed services, or in return for the Participant surrendering other compensation that may be due), stock units (a right to receive common stock in the future), performance shares and performance units (a right to receive common stock or stock units, or the right to receive a designated dollar value of common stock that is contingent upon achievement of performance or other objectives), and restricted stock and restricted stock units (a grant of common stock and a grant of the right to receive common stock in the future, with such shares or rights subject to a risk of forfeiture or other restrictions that lapse upon the achievement of one or more goals relating to completion of service by the Participant or the achievement of performance or other objectives, as determined by the committee). Any such awards shall be subject to such conditions, restrictions and contingencies as the committee determines.

An income tax deduction will generally be unavailable for annual compensation in excess of $1 million paid to any of the five most highly compensated officers of a public corporation. However, amounts that constitute performance-based compensation are not counted toward the $1 million limit. It is expected that options and SARs granted under the Plan will satisfy the requirements for performance-based compensation.

The committee may designate whether any bonus stock, stock units, performance shares, performance units, restricted stock, or restricted stock units being granted to any Participant are intended to be performance-based compensation as that term is used in section 162(m) of the Code. Any such awards designated as intended to be performance-based compensation shall be conditioned on the achievement of one or more performance measures, to the extent required by Code section 162(m). The performance measures that may be used by the

committee for such awards shall be based on any one or more of the following, as selected by the committee: our common stock price, total return, occupancy, leasing activity, expense vs. budgets, tenant retention, tenant satisfaction, cash flow/net assets ratio, debt/capital ratio, return on total capital, return on equity, funds from operations, funds from operations per share growth, revenue growth and total return to stockholders. The measurement may be based on our (or one of our business units) performance and/or on performance as compared with that of other publicly traded companies. For awards intended to be performance-based compensation, the grant of the awards and the establishment of the performance measures shall be made during the period required under Code section 162(m).

Amendment and Termination

The Plan, and any award granted under the Plan, may be amended or terminated at any time by the Board of Directors, provided that no amendment or termination may adversely affect the rights of any Participant without the Participant s written consent.

United States Income Tax Consideration

Under present Federal income tax laws, awards granted under the Plan will have the following tax consequences:

Non-Qualified Options

The grant of a non-qualified option (NQO) will not result in taxable income to the Participant. Except as described below, the Participant will realize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares of common stock acquired over the exercise price for those shares of common stock, and we will be entitled to a corresponding deduction. Gains or losses realized by the Participant upon disposition of such shares of common stock will be treated as capital gains and losses, with the basis in such shares of common stock equal to the fair market value of the shares common stock at the time of exercise.

The exercise of an NQO through the delivery of previously acquired common stock will generally be treated as a non-taxable, like-kind exchange as to the number of shares of common stock surrendered and the identical number of shares of common stock received under the option. That number of shares of common stock will take the same basis and, for capital gains purposes, the same holding period as the shares of common stock that are given up. The value of the shares of common stock received upon such an exchange that are in excess of the number given up will be includible as ordinary income to the Participant at the time of the exercise. The excess shares of common stock will have a new holding period for capital gain purposes and a basis equal to the value of such shares of common stock determined at the time of exercise.

Neither the Participant nor the transferee will realize taxable income at the time of a non-arm s length transfer of an NQO as a gift. Upon the subsequent exercise of the option by the transferee, the Participant will realize ordinary income in an amount equal to the excess of the fair market value of the shares of common stock on the date of exercise over the option price. Upon a subsequent disposition of the shares of common stock by the transferee, the transferee will generally realize short-term or long-term capital gain or loss, with the basis for computing such gain or loss equal to the fair market value of the common stock at the time of exercise. If a Participant makes a gift of an option, and surrenders all dominion and control of the option, the gift should be complete for Federal gift tax purposes at the time of transfer and should be valued at that time (or, if later, at the time the option becomes vested). For gift and estate tax purposes, the gift of an option would generally cause the option (and the common stock acquired by exercise) to be excluded from the Participant s estate. Special rules may apply if the Participant makes a gift of an award to a charity or to a living trust under which the Participant retains the right to revoke the trust or substantially alter its terms.

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Incentive Stock Options

The grant of an incentive stock option (ISO) will not result in taxable income to the Participant. The exercise of an ISO will not result in taxable income to the Participant provided that the Participant was, without a break in service, our employee during the period beginning on the date of the grant of the option and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the Participant is disabled, as that term is defined in the Internal Revenue Code).

The excess of the fair market value of the shares of common stock at the time of the exercise of an ISO over the exercise price is an adjustment that is included in the calculation of the Participant s alternative minimum taxable income for the tax year in which the ISO is exercised. For purposes of determining the Participant s alternative minimum tax liability for the year of disposition of the shares of common stock acquired pursuant to the ISO exercise, the Participant will have a basis in those shares of common stock equal to the fair market value of the shares of common stock at the time of exercise.

If the Participant does not sell or otherwise dispose of the common stock within two years from the date of the grant of the ISO or within one year after receiving the transfer of such common stock, then, upon disposition of such shares of common stock, any amount realized in excess of the exercise price will be taxed to the Participant as capital gain, and we will not be entitled to any deduction for Federal income tax purposes. A capital loss will be recognized to the extent that the amount realized is less than the exercise price.

If the foregoing holding period requirements are not met, the Participant will generally realize ordinary income, and we will be allowed a corresponding deduction, at the time of the disposition of the shares of common stock, in an amount equal to the lesser of

the excess of the fair market value of the shares of common stock on the date of exercise over the exercise price, or

the excess, if any, of the amount realized upon disposition of the shares of common stock over the exercise price.

If the amount realized exceeds the value of the shares of common stock on the date of exercise, any additional amount will be capital gain. If the amount realized is less than the exercise price, the Participant will recognize no income, and a capital loss will be recognized equal to the excess of the exercise price over the amount realized upon the disposition of the shares of common stock.

The exercise of an ISO through the exchange of previously acquired common stock will generally be treated in the same manner as such an exchange would be treated in connection with the exercise of an NQO; that is, as a non-taxable, like-kind exchange as to the number of shares of common stock given up and the identical number of shares of common stock received under the option. That number of shares of common stock will take the same basis and, for capital gain purposes, the same holding period as the shares of common stock that are given up. However, such holding period will not be credited for purposes of the one-year holding period required for the new shares of common stock to receive ISO treatment. Shares of common stock received in excess of the number of shares of common stock given up will have a new holding period and will have a basis of zero or, if any cash was paid as part of the exercise price, the excess shares of common stock received will have a basis equal to the amount of the cash. If a disqualifying disposition (a disposition before the end of the applicable holding period) occurs with respect to any of the shares of common stock received from the exchange, it will be treated as a disqualifying disposition of the shares of common stock with the lowest basis.

If the exercise price of an ISO is paid with shares of common stock acquired through a prior exercise of an ISO, gain will be realized on the shares of common stock given up (and will be taxed as ordinary income) if those shares of common stock have not been held for the minimum ISO holding period (two years from the date of grant and one year from the date of transfer), but the exchange will not affect the tax treatment, as described in the immediately preceding paragraph, of the shares of common stock received.

Stock Appreciation Rights

The grant of an SAR will not result in taxable income to the Participant. Upon exercise of an SAR, the amount of cash or the fair market value of shares of common stock received will be taxable to the Participant as ordinary income, and we will be allowed a corresponding deduction. Gains or losses realized by the Participant upon disposition of such shares of common stock will be treated as capital gains and losses, with the basis in such shares of common stock equal to the fair market value of the shares of common stock at the time of exercise.

Performance Units

A Participant who has been granted performance units will not realize taxable income at the time of grant, and we will not be entitled to a deduction at that time. The Participant will have compensation income at the time of distribution equal to the cash and the then fair market value of the distributed performance shares, and we will have a corresponding deduction.

Restricted and Other Stock

A Participant who has been granted a restricted stock award will not realize taxable income at the time of grant, and we will not be entitled to a deduction at that time, assuming that the restrictions constitute a substantial risk of forfeiture for Federal income tax purposes. Upon the vesting of shares of common stock subject to an award, the holder will realize ordinary income in an amount equal to the then fair market value of those shares of common stock, and we will be entitled to a corresponding deduction. Gains or losses realized by the Participant upon disposition of such shares of common stock will be treated as capital gains and losses, with the basis in such shares of common stock equal to the fair market value of the shares of common stock at the time of vesting. Dividends paid to the holder during the restriction period will also be compensation income to the Participant and deductible as such by us.

A Participant may elect pursuant to Section 83(b) of the Internal Revenue Code to have the income recognized and measured at the date of grant of restricted stock and to have the applicable capital gain holding period commence as of that date, as described below.

A Participant who has been granted a stock award that is not subject to a substantial risk of forfeiture for Federal income tax purposes (for example, bonus stock) will realize ordinary income in an amount equal to the fair market value of the shares of common stock at such time, and we will be entitled to a corresponding deduction.

Section 83(b) Election

If a Participant is granted shares of common stock that are subject to a substantial risk of forfeiture, recognition of income may be accelerated to the date of grant if the Participant files an election under Internal Revenue Code section 83(b). Such an election must be filed with the IRS not later than 30 days after the date the property was transferred (i.e., the date of grant), and may be filed prior to the date of transfer. A copy of the election should be filed with us. If such an election is properly filed in a timely manner:

(i) we will be entitled to a deduction at the time of grant and in an amount equal to the fair market value of the shares of common stock at the time of grant (determined without regard to forfeiture restrictions and other non-permanent restrictions),

(ii) dividends paid to such holder during the restriction period will be taxable as dividends to such holder and not deductible by us and

(iii) there will be no further tax consequences when the restrictions lapse.

Gains or losses realized by the Participant upon disposition of such shares of common stock will be treated as capital gains and losses, with the basis in such shares of common stock equal to the fair market value of the shares of common stock at the time of grant. If a Participant who has made such an election subsequently forfeits the shares of common stock, the Participant will not be entitled to any deduction or loss.

Deferred Delivery of Shares

If delivery of common stock pursuant to the settlement of an award under the Plan is deferred to a date that is later than the regularly scheduled delivery date (by reason of the Participant filing a properly completed deferral form, or by reason of our action), the Participant will recognize income at the time of distribution, in an amount equal to the then fair market value of the shares of common stock. However, if stock is subject to a substantial risk of forfeiture at the time of distribution, recognition of income will be deferred until the risk of forfeiture lapses. If the shares of common stock acquired pursuant to the exercise of an option are to be delivered following a specified period of deferral, recognition of income will be deferred until the end of the deferral period (or, if later, upon the lapse of any substantial risk of forfeiture applicable to the shares of common stock).

Withholding of Taxes

Pursuant to the Plan, we may deduct, from any payment or distribution of shares of common stock under the Plan, the amount of any tax required by law to be withheld with respect to such payment, or may require the Participant to pay us such amount prior to, and as a condition of, making such payment or distribution. Subject to rules and limitations established by the committee, a Participant may elect to satisfy the withholding required, in whole or in part, either by having us withhold shares of common stock from any payment under the Plan or by the Participant delivering shares of common stock to us. However, the number of such shares of common stock used to satisfy the withholding obligation with respect to the exercise of an option may not be more than the number required to satisfy the our minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). Any election must be made in writing on or before the date when the amount of taxes to be withheld is determined. The portion of the withholding that is satisfied with shares of common stock will be determined using the fair market value of the common stock on the date when the amount of taxes to be withheld is determined.

The use of shares of common stock to satisfy any withholding requirement will be treated, for Federal income tax purposes, as a sale of such shares of common stock for an amount equal to the fair market value of the common stock on the date when the amount of taxes to be withheld is determined. If previously-owned shares of common stock are delivered by a Participant to satisfy a withholding requirement, the disposition of such shares of common stock would result in the recognition of gain or loss by the Participant for tax purposes, depending on whether the basis in the delivered shares of common stock is less than or greater than the fair market value of the shares of common stock at the time of disposition.

Tax Advice

The preceding discussion is based on Federal tax laws and regulations presently in effect, which are subject to change, and the discussion does not purport to be a complete description of the Federal income tax aspects of the Plan. A Participant may also be subject to state and local taxes in connection with the grant of awards under the Plan. We suggest that Participants consult with their individual tax advisors to determine the applicability of the tax rules to the awards granted to them in their personal circumstances.

Compensation Program

The Board of Directors has approved, subject to the approval of the Plan by the stockholders, a compensation program for each of William T. Atkins, our Chief Executive Officer, and Charles K. Knight, our

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President and Chief Operating Officer, pursuant to which each of Messrs. Atkins and Knight would receive cash and non-cash compensation. The non-cash portion of the compensation program will be administered under the Plan. Under the compensation program, Messrs. Atkins and Knight will receive (i) an annual cash salary, (ii) shares of our restricted common stock and (iii) a performance bonus which will contain a cash and non-cash component.

As long-term incentive compensation, each of Messrs. Atkins and Knight will receive 58,000 shares of our restricted common stock. These shares of common stock will vest ratably over a five-year period commencing January 1, 2003, with 11,600 shares of common stock being issued each January 2004 through January 2008. Each year, Messrs. Atkins and Knight will be entitled to receive the vested shares of common stock plus the amounts of dividends attributable to the unvested shares of common stock. The total number of shares of common stock and cash payable with respect to dividends may be adjusted as necessary (based on the market price of the common stock on the date of issuance) to provide sufficient cash to either of Messrs. Atkins or Knight to pay income taxes that may be due on the payment of the shares of common stock and dividends received.

The performance bonus portion of the compensation program will be payable to Messrs. Atkins and Knight annually based on our performance for each of the three years ending December 31, 2003, 2004 and 2005. Following the year ending December 31, 2005, Messrs. Atkins and Knight will be entitled to a bonus based on our performance for the three-year period ending December 31, 2005. The bonus payable to Messrs. Atkins and Knight will be based on our total return performance as compared to the other office REITs comprising our peer group as reported by the National Association of Real Estate Investment Trusts for each of the three years ending December 31, 2003, 2004 and 2005 and the three-year period ending December 31, 2005, respectively. The annual bonus payable to each of Messrs. Atkins and Knight could be as much as $117,000 for each of the three years ending December 31, 2003, 2004 and 2005 and as much as $351,000 for the three-year period ending December 31, 2005, respectively. Up to half of the annual bonuses and three-year bonus may be paid to Messrs. Atkins and Knight in the form of additional shares of restricted common stock.

The following table sets forth in summary form the dollar value and number of shares of common stock to be received by Messrs. Atkins and Knight under the Plan as the maximum amount paid under the compensation program described above. The dollar value and number of shares of common stock to be received by any other executive officer or employee, as an individual or as a group, is indeterminate under the Plan, as awards under the Plan will be granted from time to time by the Board of Directors or a committee thereof in its discretion.

AmeriVest Properties Inc. 2003 Long-Term Incentive Plan

Name and Position	**Dollar Value (1)**	**Number of Units(2)**
William T. Atkins Chairman and Chief Executive Officer	$ 707,700	114,980
Charles K. Knight President and Chief Operating Officer	$ 707,700	114,980

(1) Based on the March 28, 2003, American Stock Exchange closing price of $6.16 per share.

(2) This amount includes (i) 58,000 shares of restricted common stock to be received by each of Messrs. Atkins and Knight upon the adoption of the Plan by the stockholders as long-term incentive compensation and (ii) up to 56,980 shares of restricted common stock to be received by each of Messrs. Atkins and Knight as a performance bonus based on the March 28, 2003 American Stock Exchange closing price of $6.16. The amount of shares of common stock to be issued as a performance bonus is based on our performance as compared to other office REITs comprising our peer group as reported by the National Association of Real Estate Investment Trusts.

OTHER BUSINESS

The Board of Directors is not aware of any other matters that are to be presented at the annual meeting, and it has not been advised that any other person will present any other matters for consideration at the meeting. Nevertheless, if other matters should properly come before the annual meeting, the stockholders present, or the persons, if any, authorized by a valid proxy to vote on their behalf, shall vote on such matters in accordance with their judgment. See below, Proposals By Individual Stockholders; Discretionary Authority To Vote Proxies.

PROPOSALS BY INDIVIDUAL STOCKHOLDERS;

DISCRETIONARY AUTHORITY TO VOTE PROXIES

In order to be considered for inclusion in our proxy statement and form of proxy relating to the next annual meeting of stockholders following the end of our 2003 fiscal year, proposals by individual stockholders must be received by us no later than December 15, 2003. Stockholder proposals also must comply with certain SEC rules and regulations.

Proposals that are not included in our proxy statement will be considered timely and may be presented at next year s annual meeting only if the advance notice provisions of our By-Laws are satisfied. Generally, in order for a stockholder to transact business at our annual meeting, a stockholder s notice of a proposal must be made in writing and delivered or mailed by first class United States mail, postage prepaid, to our Corporate Secretary not less than 53 days nor more than 90 days prior to our annual meeting. If less than 60 days notice of the annual meeting is given to stockholders, written notice of the proposal must be delivered or mailed, in the manner described above, to our Corporate Secretary no later than the seventh day following the day on which notice of the annual meeting was mailed to stockholders. If notice is not provided as described above, the persons named in our proxy for our 2004 annual meeting will be allowed to exercise their discretionary authority to vote on any such proposal without the matter having been discussed in the proxy statement for the 2004 annual meeting. A stockholder must also comply with certain other provisions of our By-Laws. A description of the procedures that must be followed by stockholders submitting proposals to nominate directors is described in greater detail above under Proposal No. 1 Election of Directors. For a copy of our By-Laws, please contact our Corporate Secretary at 1780 South Bellaire Street, Suite 100, Denver, Colorado 80222.

AVAILABILITY OF REPORTS ON FORM 10-KSB

UPON WRITTEN REQUEST, AMERIVEST WILL PROVIDE, WITHOUT CHARGE, A COPY OF ITS ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 TO ANY OF AMERIVEST S STOCKHOLDERS OF RECORD, OR TO ANY STOCKHOLDER WHO OWNS OUR COMMON STOCK LISTED IN THE NAME OF A BANK OR BROKER AS NOMINEE, AT THE CLOSE OF BUSINESS ON MARCH 28, 2003. ANY REQUEST FOR A COPY OF OUR ANNUAL REPORT ON FORM 10-KSB SHOULD BE MAILED TO THE SECRETARY, AMERIVEST PROPERTIES INC., 1780 SOUTH BELLAIRE STREET, SUITE 100, DENVER, COLORADO 80222, (303) 297-1800.

This notice and proxy statement are sent by order of the Board of Directors.

Dated: April 15, 2003 Alexander S. Hewitt

Corporate Secretary

* * * * *

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ANNEX I

AMERIVEST PROPERTIES INC.

ARTICLES OF AMENDMENT AND RESTATEMENT

AMENDED AND RESTATED ARTICLES OF INCORPORATION

These Articles of Amendment and Restatement of AmeriVest Properties Inc. are made as of May __, 2003.

THIS IS TO CERTIFY THAT:

1. AmeriVest Properties Inc., a Maryland corporation formed on June 28, 1999 (the Corporation), desires to amend and restate its Articles of Incorporation (as amended or supplemented from time to time, these Articles of Amendment and Restatement) as currently in effect.

2. The amendment and restatement of the Articles of Incorporation as hereinafter set forth has been advised by the board of directors (the Board) of the Corporation and has been approved by the stockholders of the Corporation as required by Maryland law.

3. The Articles of Incorporation are hereby amended and restated in their entirety as follows:

FIRST: The name of the Corporation is AmeriVest Properties Inc.

SECOND: The street address of the initial registered agent and of the principal office of the Corporation in Maryland is 11 East Chase Street, Baltimore, Maryland 21202. The name of the initial registered agent of the Corporation at that address is CSC-Lawyers Incorporating Service Company. The street address of the corporate offices is 1780 South Bellaire Street, Suite 100, Denver, Colorado 80222.

THIRD: (a) The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Maryland (the Maryland Code).

(b) In furtherance of the foregoing purposes, the Corporation shall have and may exercise all of the rights, powers and privileges granted by the Maryland Code. In addition, it may do everything necessary, suitable and proper for the accomplishment of any of its corporate purposes.

FOURTH: Capital Stock.

The total number of shares of capital stock the Corporation is authorized to issue is eighty million (80,000,000) shares, par value $0.001 per share, of which seventy-five million (75,000,000) shares are common stock, $.001 par value per share (Common Stock), and five million (5,000,000) shares are preferred stock, $.001 par value per share (Preferred Stock); representing an aggregate par value of eighty thousand dollars ($80,000).

The following is a description of each class of capital stock of the Corporation, including any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption:

1. *Common Stock*. Subject to the rights of holders of any series of Preferred Stock established pursuant to Section 2 of this ARTICLE FOURTH, each holder of Common Stock shall have one vote for each share of Common Stock standing in his or her name on the books of the Corporation and entitled to vote, except that in the election of directors he or she shall have the right to vote such number of shares for as many persons as there are directors to be elected. Cumulative voting shall not be allowed in the election of directors or for any other

purpose. No stockholder of the Corporation shall have any preemptive or similar right to acquire any additional unissued or treasury shares of stock or other securities of any class, or rights, warrants or options to purchase stock or scrip, or securities of any kind convertible into stock or carrying stock purchase warrants or privileges.

2. *Preferred Stock*. The Board shall have the power from time to time to classify or reclassify, in one or more series, any unissued shares of Preferred Stock by setting or changing the number of shares constituting a series and by setting or changing the designation, preferences conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption of the Preferred Stock.

3. *Ownership Limitation*. Shares of capital stock in the Corporation shall be transferable (subject to the further provisions of this Section 3 of ARTICLE FOURTH) in accordance with the procedure prescribed from time to time in the Bylaws. The persons in whose name the shares of capital stock are registered on the books of the Corporation shall be deemed the absolute owners thereof and, until a transfer is effected on the books of the Corporation, the Board shall not be affected by any notice, actual or constructive, of any transfer. Any issuance, redemption or transfer of shares of capital stock which would operate to disqualify the Corporation as a REIT (defined below), shall be null and void ab initio.

(a) *Definitions*. For purposes of this Section 3 of ARTICLE FOURTH, the following terms shall have the following meanings:

Adoption Date shall mean the date of the adoption of the ownership restrictions contained in this Section 3 of ARTICLE FOURTH by resolution of the Board, which shall be deemed to occur upon the Board adoption of this Section 3 of ARTICLE FOURTH.

Beneficial Ownership shall mean ownership of Shares by a Person who would be treated as an owner of such Shares either directly or constructively through the application of Section 544 of the Code, as modified by Section 856(h) of the Code. The terms Beneficial Owner, Beneficially Owns, Beneficially Own and Beneficially Owned shall have correlative meanings.

Charitable Beneficiary shall mean an organization or organizations described in Sections 170(b)(1)(A) and 170(c) of the Code and identified by the Board as the beneficiary or beneficiaries of the Excess Share Trust.

Code shall mean the Internal Revenue Code of 1986, as amended.

Debt shall mean indebtedness of the Corporation.

Excess Shares shall have the meaning given to it in subparagraph (i) of paragraph (c) of this Section 3 of ARTICLE FOURTH.

Excess Share Trust shall mean the trust created pursuant to paragraph (m) of this Section 3 of ARTICLE FOURTH.

Excess Share Trustee shall mean a person, who shall be unaffiliated with the Corporation, any Purported Beneficial Transferee and any Purported Record Transferee, identified by the Board as the trustee of the Excess Share Trust.

fair market value shall mean the fair market value as determined in good faith by the Board.

Ownership Limit shall initially mean 9.0%, in number of Shares or value, of the outstanding Shares of the Corporation, and after any adjustment as set forth in paragraph (i) of this Section 3 of ARTICLE FOURTH, shall mean such greater percentage of the outstanding Shares as so adjusted. The number and value of the outstanding Shares of the Corporation shall be determined by the Board in good faith, which determination shall be conclusive for all purposes hereof.

Person shall mean an individual, Corporation, partnership, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity.

Purported Beneficial Transferee shall mean, with respect to any purported Transfer which results in Excess Shares, as defined below in paragraph (c) of this Section 3 of ARTICLE FOURTH, the beneficial holder of the Shares, if such Transfer had been valid under paragraph (b) of this Section 3 of ARTICLE FOURTH.

Purported Record Transferee shall mean, with respect to any purported Transfer which results in Excess Shares, as defined below in paragraph (c) of this Section 3 of ARTICLE FOURTH, the record holder of the Shares, if such Transfer had been valid under paragraph (b) of this Section 3 of ARTICLE FOURTH.

REIT shall mean a real estate investment trust, as described in Sections 856-860 of the Code.

Restriction Termination Date shall mean the first day after the Adoption Date on which the Board determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT.

Shares shall mean stock that is either Common Stock or Preferred Stock, if any.

Transfer shall mean any sale, transfer, gift, assignment, devise or other disposition of Shares (including (a) the issuance of Shares by the Corporation, (b) the granting of any option or entering into any agreement for the sale, transfer or other disposition of Shares, (c) the sale, transfer, assignment or other disposition of any securities or rights convertible into or exchangeable for Shares, but excluding the exchange of Debt or any security of the Corporation for Shares and (d) any transfer or other disposition of any interest in Shares as a result of a change in the marital status of the holder thereof), whether voluntary or involuntary, whether of record, constructively or beneficially and whether by operation of law or otherwise. The terms Transfers and Transferred shall have correlative meanings.

(b) *Ownership Limitation.*

(i) Except as provided in paragraph (k) of this Section 3 of ARTICLE FOURTH, from the Adoption Date until the Restriction Termination Date, no Person shall Beneficially Own Shares in excess of the Ownership Limit.

(ii) Except as provided in paragraph (k) of this Section 3 of ARTICLE FOURTH, from the Adoption Date until the Restriction Termination Date, any Transfer that, if effective, would result in any Person Beneficially Owning Shares in excess of the Ownership Limit shall be void ab initio as to the Transfer of the Shares which would be otherwise Beneficially Owned by such Person in excess of the Ownership Limit; and the intended transferee shall acquire no rights in such Shares.

(iii) From the Adoption Date until the Restriction Termination Date, any Transfer that, if effective, would result in the Shares being beneficially owned (as provided in Section 856(a) of the Code) by less than 100 Persons (determined without reference to any rules of attribution) shall be void ab initio as to the Transfer of Shares which would be otherwise beneficially owned (as provided in Section 856(a) of the Code) by the transferee; and the intended transferee shall acquire no rights in such Shares.

(iv) From the Adoption Date until the Restriction Termination Date, any Transfer that, if effective, would result in the Corporation being closely held within the meaning of Section 856(h) of the Code or otherwise failing to qualify as a REIT (including, but not limited to, Beneficial Ownership that would result in the Corporation owning (actually or constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code), shall be void ab initio as to the Transfer of the Shares which would cause the Corporation to be closely held within the meaning of Section 856(h) of the Code or which would cause the Corporation to fail to qualify as a REIT; and the intended transferee shall acquire no rights in such Shares.

(c) *Excess Shares.*

(i) If, notwithstanding the other provisions contained in this Section 3 of ARTICLE FOURTH, at any time after the Adoption Date until the Restriction Termination Date, there is a purported Transfer or other change in the capital structure of the Corporation such that any Person would Beneficially Own Shares in excess of the Ownership Limit, then, except as otherwise provided in paragraph (k) of this Section 3 of ARTICLE FOURTH, the Shares Beneficially Owned in excess of the Ownership Limit (rounded up to the nearest whole Share) shall constitute Excess Shares and be treated as provided in this Section 3 of ARTICLE FOURTH. Such designation and treatment shall be effective as of the close of business on the business day prior to the date of the purported Transfer or change in capital structure.

(ii) If, notwithstanding the other provisions contained in this Section 3 of ARTICLE FOURTH, at any time after the Adoption Date until the Restriction Termination Date, there is a purported Transfer or other change in the capital structure of the Corporation which, if effective, would cause the Corporation to become closely held within the meaning of Section 856(h) of the Code, then the Shares being Transferred which would cause the Corporation to be closely held within the meaning of Section 856(h) of the Code (rounded up to the nearest whole Share) shall constitute Excess Shares and be treated as provided in this Section 3 of ARTICLE FOURTH. Such designation and treatment shall be effective as of the close of business on the business day prior to the date of the purported Transfer or change in capital structure.

(d) *Prevention of Transfer*. If the Board or its designee shall at any time determine in good faith that a Transfer has taken place in violation of paragraph (b) of this Section 3 of ARTICLE FOURTH or that a Person intends to acquire or has attempted to acquire beneficial ownership (determined without reference to any rules of attribution) or Beneficial Ownership of any Shares in violation of paragraph (b) of this Section 3 of ARTICLE FOURTH, the Board or its designee shall take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer; provided, however, that any Transfers or attempted Transfers in violation of subparagraph (ii), (iii) or (iv) of paragraph (b) of this Section 3 of ARTICLE FOURTH shall automatically result in the designation and treatment described in paragraph (c) of this Section 3 of ARTICLE FOURTH, irrespective of any action (or non-action) by the Board.

(e) *Notice to Corporation*. Any Person who acquires or attempts to acquire Shares in violation of paragraph (b) of this Section 3 of ARTICLE FOURTH, or any Person who is a transferee such that Excess Shares result under paragraph (c) of this Section 3 of ARTICLE FOURTH, shall immediately give written notice or, in the event of a proposed or attempted Transfer, shall give at least 15 days prior written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or attempted Transfer on the Corporation s status as a REIT.

(f) *Information for Corporation*. From the Adoption Date until the Restriction Termination Date:

(i) every Beneficial Owner of more than 1% (or such other percentage, between ½ of 1% and 5%, as provided in the income tax regulations promulgated under the Code) of the number or value of outstanding Shares of the Corporation shall, within 30 days after January 1 of each year, give written notice to the Corporation stating the name and address of such Beneficial Owner, the number of Shares Beneficially Owned, and a description of how such Shares are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may reasonably request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation s status as a REIT.

(ii) each Person who is a Beneficial Owner of Shares and each Person (including the shareholder of record) who is holding Shares for a Beneficial Owner shall provide to the Corporation in writing such information with respect to direct, indirect and constructive ownership of Shares as the Board deems reasonably necessary to comply with the provisions of the Code applicable to a REIT, to determine the Corporation s

status as a REIT, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

(g) *Other Action by Board of Directors*. Nothing contained in this Section 3 of ARTICLE FOURTH shall limit the authority of the Board to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its shareholders by preservation of the Corporation s status as a REIT; provided, however, that no provision of this paragraph (g) shall preclude the settlement of any transaction entered into through the facilities of the American Stock Exchange (or any other exchange or quotation system through which the Shares are traded or listed).

(h) *Ambiguities*. In the case of an ambiguity in the application of any of the provisions of this Section 3 of ARTICLE FOURTH, including any definition contained in paragraph (a), the Board shall have the power to interpret and determine the application of the provisions of this Section 3 of ARTICLE FOURTH with respect to any situation based on the facts known to the Board; provided, however, that in case of doubt such power shall be exercised in a fashion calculated to preserve the Corporation s status as a REIT.

(i) *Increase or Decrease in Ownership Limit*. Subject to the limitations provided in paragraph (j) of this Section 3 of ARTICLE FOURTH, the Board may from time to time increase or decrease the Ownership Limit; provided, however, that any decrease may only be made prospectively as to subsequent holders (other than a decrease as a result of a retroactive change in existing law that would require a decrease to retain REIT status, in which case such decrease shall be effective immediately).

(j) *Limitations on Changes in Ownership Limit.*

(i) The Ownership Limit may not be increased if, after giving effect to such increase, five Beneficial Owners of Shares who are individuals (as determined by reference to Section 542(a)(2) of the Code) could Beneficially Own, in the aggregate, more than 49.9% in number or value of the outstanding Shares.

(ii) Prior to the modification of the Ownership Limit pursuant to paragraph (i) of this Section 3 of ARTICLE FOURTH, the Board may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure the Corporation s status as a REIT.

(k) *Waivers by Board of Directors.*

(i) The Board, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel or other evidence satisfactory to the Board and upon at least 15 days written notice from a transferee prior to the proposed Transfer which, if consummated, would result in the intended transferee owning Shares in excess of the Ownership Limit, and upon such other conditions as the Board may direct, may waive the Ownership Limit with respect to such transferee.

(ii) In addition to waivers permitted under subparagraph (i) above, the Board shall, subject to subparagraph (iv) of paragraph (b) of this Section 3 of ARTICLE FOURTH, waive the Ownership Limit with respect to a Person if: (w) such Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that such Person is not an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code); (x) such Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that no Person who is an individual for purposes of Section 542(a)(2) of the Code (determined taking into account Section 856(h)(3)(A) of the Code) would be considered to Beneficially Own Shares in excess of the Ownership Limit by reason of the ownership of Shares in excess of the Ownership Limit by the Person receiving the waiver granted under this subparagraph (ii); (y) such

Person submits to the Board information satisfactory to the Board, in its reasonable discretion, demonstrating that the ownership of Shares in excess of the Ownership Limit by the Person receiving the waiver granted under this subparagraph (ii) will not result in the Corporation failing to qualify as a REIT; and (z) such Person provides to the Board such representations and undertakings, if any, as the Board may, in its reasonable discretion, require to ensure that the conditions in clauses (w), (x) and (y) above are satisfied and will continue to be satisfied throughout the period during which such Person owns Shares in excess of the Ownership Limit pursuant to any waiver granted under this

subparagraph (ii), and such Person agrees that any violation of such representations and undertakings or any attempted violation thereof will result in the application of the remedies set forth in paragraph (c) of this Section 3 of ARTICLE FOURTH with respect to Shares held in excess of the Ownership Limit by such Person (determined without regard to the waiver granted such Person under this subparagraph (ii)).

(l) *Severability*. If any provision of this Section 3 of ARTICLE FOURTH or any application of any such provision is determined to be void, invalid or unenforceable by any court having jurisdiction over the issue, the validity and enforceability of the remaining provisions shall be affected only to the extent necessary to comply with the determination of such court.

(m) *Trust for Excess Shares*. Upon any purported Transfer that results in Excess Shares pursuant to paragraph (c) of this Section 3 of ARTICLE FOURTH, such Excess Shares shall be deemed to have been transferred to the Excess Share Trustee, as trustee of the Excess Share Trust for the exclusive benefit of the Charitable Beneficiary. Excess Shares so held in trust shall be issued and outstanding Shares of the Corporation. The Purported Beneficial Transferee shall have no rights in such Excess Shares except as provided in paragraph (p) of this Section 3 of ARTICLE FOURTH.

(n) *Distributions on Excess Shares*. Any distributions (whether as dividends, distributions upon liquidation, dissolution or winding up or otherwise) on Excess Shares shall be paid to the Excess Share Trust for the benefit of the Charitable Beneficiary. Upon liquidation, dissolution or winding up, the Purported Record Transferee shall receive the lesser of (i) the amount of any distribution made upon liquidation, dissolution or winding up or (ii) the price paid by the Purported Record Transferee for the Shares, or if the Purported Record Transferee did not give value for the Shares, the fair market value of the Shares on the day of the event causing the Shares to be held in trust. Any such dividend paid or distribution paid to the Purported Record Transferee in excess of the amount provided in the preceding sentence prior to the discovery by the Corporation that the Shares with respect to which the dividend or distribution was made had been exchanged for Excess Shares shall be repaid by the Purported Record Transferee to the Excess Share Trust for the benefit of the Charitable Beneficiary.

(o) *Voting of Excess Shares*. The Excess Share Trustee shall be entitled to vote the Excess Shares for the benefit of the Charitable Beneficiary on any matter. The Purported Record Transferee shall have no voting rights with respect to shares held in the Excess Share Trust and, subject to Maryland law, effective as of the date that Excess Shares have been transferred to the Excess Share Trustee, the Excess Share Trustee shall have the authority (at the Excess Share Trustee s sole discretion) to (i) rescind as void any vote cast by a Purported Record Transferee prior to the discovery by the Excess Share Trust that Excess Shares have been transferred to the Excess Share Trustee and (ii) recast such vote in accordance with the desires of the Excess Share Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible action, then the Excess Share Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Section 3 of ARTICLE FOURTH, until the Excess Share Trust has received notification that Excess Shares have been transferred into a Excess Share Trust, the Excess Share Trust shall be entitled to rely on its share transfer and other shareholder records for purposes of preparing lists of shareholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of shareholders. The owner of the Excess Shares shall be deemed to have given an irrevocable proxy to the Excess Share Trustee to vote the Excess Shares for the benefit of the Charitable Beneficiary.

(p) *Non-Transferability of Excess Shares*. Excess Shares shall be transferable only as provided in this paragraph (p). At the direction of the Corporation, the Excess Share Trustee shall transfer the Shares held in the Excess Share Trust to a person whose ownership of the Shares will not violate the Ownership Limit. Such transfer shall be made within 60 days after the latest of (i) the date of the Transfer which resulted in such Excess Shares and (ii) the date the Board determines in good faith that a Transfer resulting in Excess Shares has occurred, if the Corporation does not receive a notice of such Transfer pursuant to paragraph (e) of this Section 3 of ARTICLE FOURTH. If such a transfer is made, the interest of the Charitable Beneficiary shall terminate and

proceeds of the sale shall be payable to the Purported Record Transferee and to the Charitable Beneficiary. The Purported Record Transferee shall receive the lesser of (a) the price paid by the Purported Record Transferee for the Shares or, if the Purported Record Transferee did not give value for the Shares, the fair market value of the Shares on the day of the event causing the Shares to be held in trust, and (b) the price received by the Excess Share Trust from the sale or other disposition of the Shares. Any proceeds in excess of the amount payable to the Purported Record Transferee shall be paid to the Charitable Beneficiary. Prior to any transfer of any Excess Shares by the Excess Share Trustee, the Corporation must have waived in writing its purchase rights under paragraph (q) of this Section 3 of ARTICLE FOURTH. It is expressly understood that the Purported Record Transferee may enforce the provisions of this paragraph (p) against the Charitable Beneficiary. If any of the foregoing restrictions on transfer of Excess Shares is determined to be void, invalid or unenforceable by any court of competent jurisdiction, then the Purported Record Transferee may be deemed, at the option of the Corporation, to have acted as an agent of the Corporation in acquiring such Excess Shares and to hold such Excess Shares on behalf of the Corporation.

(q) *Call by Corporation on Excess Shares*. Excess Shares shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per Share equal to the lesser of (a) the price per Share in the transaction that created such Excess Shares (or, in the case of a devise, gift or other transaction in which no value was given for such Excess Shares, the fair market value at the time of such devise, gift or other transaction) and (b) the fair market value of the Shares to which such Excess Shares relate on the date the Corporation, or its designee, accepts such offer (the Redemption Price). The Corporation shall have the right to accept such offer for a period of 90 days after the later of (x) the date of the Transfer which resulted in such Excess Shares and (y) the date the Board determines in good faith that a Transfer resulting in Excess Shares has occurred, if the Corporation does not receive a notice of such Transfer pursuant to paragraph (e) of this Section 3 of ARTICLE FOURTH but in no event later than a permitted Transfer pursuant to and in compliance with the terms of paragraph (p) of this Section 3 of ARTICLE FOURTH. Unless the Board determines that it is in the interests of the Corporation to make earlier payments of all of the amount determined as the Redemption Price per Share in accordance with the preceding sentence, the Redemption Price may be payable at the option of the Board at any time up to but not later than one year after the date the Corporation accepts the offer to purchase the Excess Shares. In no event shall the Corporation have an obligation to pay interest to the Purported Record Transferee.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: Elections of directors need not be by written ballot unless the Bylaws of the Corporation so provide.

SEVENTH: The Board is expressly authorized to adopt, amend, or repeal the Bylaws of the Corporation.

EIGHTH: The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and the same are in furtherance of and not in limitation of the powers conferred by law:

No contract or other transaction of the Corporation with any other persons, firm or corporation in which this Corporation is interested, shall be affected or invalidated by the fact that any one or more of the directors or officers of this Corporation, individually or jointly with others, may be a party to or may be interested in any such contract or transaction so long as the contract or other transaction is approved by the Board in accordance with the Maryland Code. Each person who may become a director or officer of the Corporation is hereby relieved from any liability that might otherwise arise by reason of his contracting with the Corporation for the benefit of himself or herself or any firm or Corporation in which he or she may be in any way interested.

NINTH: The personal liability of each director and officer of the Corporation shall be eliminated and limited to the full extent permitted by the laws of the State of Maryland, including without limitation as permitted

by the provisions of Section 2-405.2 of the Maryland Code and any successor provision, as amended from time to time. No amendment of these Articles of Amendment and Restatement or repeal of any of their provisions shall limit or eliminate the benefits provided to directors under this provision with respect to any act or omission that occurred prior to that amendment or repeal.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in these articles of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH: Directors.

1. *Number*. The number of directors of the Corporation shall be fixed and may be altered from time to time as provided in the Bylaws of the Corporation, but in no event shall the number of directors exceed nine directors. If the number of directors is decreased by resolution of the Board pursuant to the Bylaws, in no case shall the decrease shorten the term of any incumbent director.

2. *Classification*. The directors shall be divided as evenly as possible into three classes, designated Class 1, Class 2, and Class 3. If the number of directors is not evenly divisible by three, the remainder positions shall be allocated first to Class 1 and then to Class 2. At the first election of directors by stockholders following the enactment of this ARTICLE ELEVENTH, Section 2, Class 2 directors shall be elected for a term expiring at the next subsequent annual meeting of stockholders, Class 3 directors for a term expiring at the second subsequent annual meeting of stockholders, and Class 1 directors for a term expiring at the third subsequent annual meeting of stockholders. At each succeeding annual meeting of stockholders, successors to directors whose terms expired at that annual meeting shall be of the same class as the directors they succeed and shall be elected for three-year terms. The names, classes and addresses of the current directors of the Corporation are as follows:

Name and Class	Address
John A. Labate, Class 1	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
Patrice Derrington, Class 1	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
Harry P. Gelles, Class 1	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
Charles K. Knight, Class 2	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
Jerry J. Tepper, Class 2	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
James F. Etter, Class 2	1780 South Bellaire Street, Suite 100 Denver, Colorado 80222
William T. Atkins, Class 3	1780 South Bellaire Street, Suite 100

	Denver, Colorado 80222
Robert W. Holman, Jr., Class 3	1780 South Bellaire Street, Suite 100
	Denver, Colorado 80222

3. *Terms; Vacancies*. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement or removal from office. Any newly created directorship resulting from an increase in the number of directors and any other vacancy on the Board, however caused, may be filled by a majority of the

directors then in office, although less than a quorum, or by a sole remaining director. Any director elected by one or more directors to fill a newly created directorship or other vacancy shall, without regard to the class in which the vacancy occurred, hold office until the next succeeding annual meeting of stockholders and until his or her successor shall have been elected and qualified. The term of a director elected by stockholders to fill a newly created directorship or other vacancy shall expire at the same time as the terms of the other directors of the same class.

4. *Nominations*. Advance notice of nominations for the election of directors, other than nominations by the Board or a committee thereof, shall be given to the Corporation in the manner provided from time to time in the Bylaws.

5. *Special Director*. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of these Articles of Amendment and Restatement. Directors so elected shall not be divided into classes and shall be elected by such holders annually unless expressly provided otherwise by those provisions or resolutions, and, during the prescribed terms of office of those directors, the Board shall consist of the number of directors equal to the number of those directors plus the number of directors determined as provided in Section 1 of this ARTICLE ELEVENTH.

6. *Amendments, Etc*. Notwithstanding anything contained in these Articles of Amendment and Restatement to the contrary, the affirmative vote of the holders of at least 66 $^{2}/3$ percent of the outstanding shares of Common Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, this ARTICLE ELEVENTH.

TWELFTH: Subject to Section 6 of ARTICLE ELEVENTH, when, with respect to any actions to be taken by shareholders of the Corporation, the Maryland Code requires the vote or concurrence of the holders of two-thirds of the outstanding shares, of the shares entitled to vote thereon, or of any class or series, such action may be taken by the vote or concurrence of the majority of such shares or class or series thereof.

THIRTEENTH Indemnification.

Section 1. *Indemnification of Directors and Officers*. Subject to Section 2 of this ARTICLE THIRTEENTH, each director and officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was at any time since the inception of the Corporation a director or officer of the Corporation, or is or was at any time since the inception of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including serving as trustee, plan administrator or other fiduciary of any employee benefit plan, shall be indemnified by the Corporation to the fullest extent permitted by the Maryland Code (or any similar provision or provisions of applicable law at the time in effect).

Section 2. *Indemnification of Directors and Officers Pursuant to the Common Law or Statutory Provisions other than the Maryland Code*. Each director and officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was at any time since the inception of the Corporation a director or officer of the Corporation, or is or was at any time since the inception of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including serving as trustee, plan administrator or other fiduciary of any employee benefit plan, shall be indemnified by the Corporation to the fullest extent permitted by the common law and by any statutory provision other than the Maryland Code.

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Section 3. *Mandatory Advance of Expenses.* Reasonable expenses incurred in defending any action, suit or proceeding described in Section 1 or 2 of this ARTICLE THIRTEENTH shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount to the Corporation if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this ARTICLE THIRTEENTH.

Section 4. *Payment of Indemnified Claims*. Reasonable amounts required to be paid in settlement or as a judgment in any action, suit or proceeding described in Section 1 or 2 of this ARTICLE THIRTEENTH shall be paid by the Corporation within ninety (90) days of the receipt of an undertaking by or on behalf of such director or officer to repay such amount to the Corporation if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this ARTICLE THIRTEENTH; provided however, that the Corporation shall not be required to pay such amounts if a majority of the members of the Board vote to deny the request for indemnification within the ninety-day period set forth in this Section 4 of ARTICLE THIRTEENTH.

Section 5. *Rights of Appeal*. In the event that the Corporation advances funds for indemnification pursuant to this ARTICLE THIRTEENTH, and, subsequently, indemnification pursuant to this ARTICLE THIRTEENTH is declared unenforceable by a court, or the Corporation determines that the director or officer on whose behalf the funds were advanced is not entitled to indemnification pursuant to this ARTICLE THIRTEENTH, then such director or officer shall have the right to retain the indemnification payments until all appeals of the court s or the Corporation s decision have been exhausted.

Section 6. *Additional Indemnification*. Without limiting the indemnification otherwise provided by this ARTICLE THIRTEENTH, each director and officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was at any time since the inception of the Corporation a director or officer of the Corporation or a wholly owned subsidiary of the Corporation, or is or was at any time since the inception of the Corporation a trustee, plan administrator or other fiduciary of any employee benefit plan of the Corporation or a wholly owned subsidiary of the Corporation, shall be indemnified by the Corporation against all expenses, including attorneys fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him or her in connection with such action, suit or proceeding, including an action or suit by or in the right of the Corporation to procure a judgment in its favor, if (i) he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, (ii) his or her conduct was not material to the matter giving rise to the proceeding and was not committed in bad faith or was the result of active and deliberate dishonesty, (iii) he or she did not actually receive an improper personal benefit in money, property or services and (iv) with respect to any criminal action or proceeding he or she had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea or *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 7. *Indemnification Not Exclusive*. The indemnification provided in this ARTICLE THIRTEENTH shall not be deemed exclusive of any other rights to which any person seeking indemnification may be entitled under any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 8. *Insurance*. By action of the Board, notwithstanding any interest of the directors in such action, the Corporation may purchase and maintain insurance, in such amounts as the Board may deem appropriate, on behalf of any director or officer who is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation,

partnership, limited liability company, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under applicable provisions of laws.

Section 9. *Applicability; Effect*. Any indemnification and advancement of expenses provided by or granted pursuant to this ARTICLE THIRTEENTH shall be applicable to acts or omissions that occurred prior to the adoption of this ARTICLE THIRTEENTH, shall continue as to any persons who ceased to be a director or officer of the Corporation or a wholly owned subsidiary of the Corporation, or was serving as or has since ceased to be a trustee, plan administrator or other fiduciary of any employee benefit plan of the Corporation or a wholly owned subsidiary of the Corporation, and shall inure to the benefit of the heirs, executors, and administrators of such person. The repeal or amendment of this ARTICLE THIRTEENTH or any section or provision hereof which would have the effect of limiting, qualifying or restricting any of the powers or rights of indemnification provided or permitted in this ARTICLE THIRTEENTH shall not, solely by reason of such repeal or amendment, eliminate, restrict or otherwise affect the right or power of the Corporation to indemnify any person, or affect any right of indemnification of such person, with respect to any acts or omissions which occurred prior to such repeal or amendment. All rights under this ARTICLE THIRTEENTH shall be deemed to be provided by a contract between the Corporation and each person covered hereby.

Section 10. *Indemnification of Employees*. The Corporation shall have the power to indemnify to the fullest extent permitted by the Maryland Code (or any similar provision or provisions of applicable law at the time in effect) each employee or agent of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was at any time since the inception of the Corporation an employee or agent of the Corporation, or is or was at any time since the inception of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, including serving as trustee, plan administrator or other fiduciary of any employee benefit plan.

Section 11. *Savings Clause*. If this ARTICLE THIRTEENTH or any section or provision hereof shall be invalidated by any court on any ground, then the Corporation shall nevertheless indemnify each director and officer otherwise entitled to indemnification hereunder, or be permitted to indemnify each employee or agent, to the fullest extent permitted by law or any applicable provision of this ARTICLE THIRTEENTH that shall not have been invalidated.

* * * * *

4. (a) Immediately before the filing of these Articles of Amendment, the total number of shares of capital stock of all designations which the Corporation had the authority to issue was twenty million (20,000,000), $0.001 par value per share, of which fifteen million (15,000,000) shares were common stock, $0.001 par value per share, and five million (5,000,000) shares were preferred stock, $0.001 par value per share representing an aggregate par value of twenty thousand dollars ($20,000).

(b) Immediately after the filing of these Articles of Amendment, the total number of shares of capital stock of all designations which the Corporation has authority to issue is eighty million (80,000,000), $0.001 par value per share, of which seventy-five million (75,000,000) shares are common stock, $0.001 par value per share, and five million (5,000,000) shares are preferred stock, $0.001 par value per share representing an aggregate par value of eighty thousand dollars ($80,000).

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf as of the date first written above, by its undersigned President and attested by its Secretary. The undersigned President acknowledges these Articles of Amendment and Restatement to be the corporate act of the Corporation and as to all matters and facts required to be verified under oath that to the best of his knowledge, information and belief, the matters and facts set forth herein are true in all material respects and that this statement is made under the penalties for perjury.

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Name: Charles K. Knight

President

____

Name: Alexander S. Hewitt

Secretary

ANNEX II

AMERIVEST PROPERTIES INC.

2003 LONG-TERM STOCK INCENTIVE PLAN

SECTION 1

GENERAL

1.1. *Purpose.* The AmeriVest Properties Inc. 2003 Long-Term Stock Incentive Plan (the Plan) has been established by AmeriVest Properties Inc. (the Company) to (i) attract and retain persons eligible to participate in the Plan; (ii) motivate Participants, by means of appropriate incentives, to achieve long-range goals; (iii) provide incentive compensation opportunities that are competitive with those of other similar companies; and (iv) further identify Participants interests with those of the Company s other shareholders through compensation that is based on the Company s common stock; and thereby promote the long-term financial interest of the Company and the Subsidiaries, including the growth in value of the Company s equity and enhancement of long-term shareholder return.

1.2. *Participation.* Subject to the terms and conditions of the Plan, the Compensation Committee of the Board of Directors of the Company (the Committee) shall determine and designate, from time to time, from among the Eligible Individuals (including transferees of Eligible Individuals to the extent the transfer is permitted by the Plan and the applicable Award Agreement), those persons who will be granted one or more Awards under the Plan, and thereby become Participants in the Plan.

1.3. *Operation, Administration, and Definitions.* The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 4 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 7).

SECTION 2

OPTIONS AND SARS

2.1. *Definitions.*

(a) The grant of an Option entitles the Participant to purchase shares of Stock at an Exercise Price established by the Committee. Any Option granted under this Section 2 may be either an incentive stock option (an ISO) or a non-qualified option (an NQO), as determined in the discretion of the Committee. An ISO is an Option that is intended to satisfy the requirements applicable to an incentive stock option described in section 422(b) of the Code. An NQO is an Option that is not intended to be an incentive stock option as that term is described in section 422(b) of the Code.

(b) A stock appreciation right (an SAR) entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 2.5), value equal to (or otherwise based on) the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

2.2. *Exercise Price.* The Exercise Price of each Option and SAR granted under this Section 2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option or SAR is granted; except that, subject to subsection 4.6, the Exercise Price shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant (or, if greater, the par value of a share of Stock).

2.3. *Exercise.* An Option and an SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee.

2.4. *Payment of Option Exercise Price.* The payment of the Exercise Price of an Option granted under this Section 2 shall be subject to the following:

(a) Subject to the following provisions of this subsection 2.4, the full Exercise Price for shares of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in paragraph 2.4(c), payment may be made as soon as practicable after the exercise).

(b) The Exercise Price shall be payable in cash, by promissory note, or by tendering, by either actual delivery of shares or by attestation, shares of Stock acceptable to the Committee, and valued at Fair Market Value as of the day of exercise, or in any combination thereof, as determined by the Committee.

(c) The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

2.5. *Settlement of Award.* Settlement of Options and SARs is subject to subsection 4.7. Except for either adjustments pursuant to paragraph 4.2(f) (relating to the adjustment of shares), or decreases approved by the Company s stockholders, the Exercise Price for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may an outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower exercise price.

SECTION 3

OTHER STOCK AWARDS

3.1. *Definitions*.

(a) A Bonus Stock Award is a grant of shares of Stock in return for previously performed services, or in return for the Participant surrendering other compensation that may be due.

(b) A Stock Unit Award is the grant of a right to receive shares of Stock in the future.

(c) A Performance Share Award is a grant of a right to receive shares of Stock or Stock Units which is contingent on the achievement of performance or other objectives during a specified period.

(d) A Performance Unit Award is a grant of a right to receive a designated dollar value amount of Stock which is contingent on the achievement of performance or other objectives during a specified period.

(e) A Restricted Stock Award is a grant of shares of Stock, and a Restricted Stock Unit Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

3.2. *Restrictions on Awards.* Each Bonus Stock Award, Stock Unit Award, Restricted Stock Award, Restricted Stock Unit Award, Performance Share Award, and Performance Unit Award shall be subject to the following:

42,966

Depreciation in income from unconsolidated joint venture

1,703 246 745 751

Loss (gain) on sale of facilities

(118,114) (96,791) (4,908) (3,750) 2,725

Loss (gain) on sale of facilities from unconsolidated joint venture

(330) 116

Funds from operations available to common stockholders

$194,953 $151,337 $105,202 $107,672 $92,207

(1) We believe that funds from operations is an important non-GAAP supplemental measure of operating performance because it excludes the effect of depreciation and gains (losses) from sales of facilities (both of which are based on historical costs which may be of limited relevance in evaluating current performance). Additionally, funds from operations is widely used by industry analysts as a measure of operating performance for equity REITs. We therefore disclose funds from operations, although it is a measurement that is not defined by accounting principles generally accepted in the United States. We calculate funds from operations in accordance with the National Association of Real Estate Investment Trusts definition. Funds from operations does not represent cash generated from operating activities as defined by accounting principles generally accepted in the United States (funds from operations does not include changes in operating assets and liabilities) and, therefore, should not be considered as an alternative to net income as the primary indicator of operating performance or to cash flow as a measure of liquidity.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

To facilitate your review and understanding of this section of our report and the financial statements that follow, we are providing an overview of what management believes are the most important considerations for understanding our company and its business the key factors that drive our business and the principal associated risks.

Who We Are

We are an investment grade rated (since 1994), public equity, healthcare REIT that seeks to provide stockholders with an attractive total return (comprised of a secure, growing dividend and stock appreciation) by passively investing in healthcare properties. The healthcare sector is relatively recession resistant and presents unique growth potential as evidenced by the well known favorable demographics and increasing market penetration of a rapidly growing senior population, the increased use of healthcare services led by the aging baby boomer generation and, in each case, the corresponding recognized need for additional and improved healthcare facilities and services. Our management team has extensive operating backgrounds in senior housing and long-term care that we believe provides us a competitive advantage in these sectors. In addition, as described in greater detail below under Focus and Outlook for 2008 , we have embarked on a strategic initiative to establish and grow a full service medical office building platform comprised of a Class A portfolio of facilities backed by well regarded property management services and development capabilities.

What We Invest In

We invest passively in the following types of geographically diversified healthcare properties:

Senior Housing/Assisted and Independent Living Facilities (ALFs, ILFs and ALZs). This primarily private pay-backed sector breaks down into three principal categories, each of which may be operated on a stand alone basis or combined with one or more of the others into a single facility or campus:

- Ø *Assisted Living Facilities (ALFs)* designed for frail seniors who can no longer live independently and instead need assistance with activities of daily living (i.e., feeding, dressing, bathing, etc.) but do not require round-the-clock skilled nursing care.
- Ø *Independent Living Facilities (ILFs)* designed for seniors who pay for some concierge-type services (e.g., meals, housekeeping, laundry, transportation, and social and recreational activities) but require little, if any, assistance with activities of daily living.
- Ø *Alzheimer Facilities (ALZs)* designed for those residents with significant cognitive impairment as a result of having Alzheimer s or related dementia.

Long-Term Care/Skilled Nursing Facilities (SNFs). This primarily government (Medicare and Medicaid) reimbursement backed sector consists of skilled nursing facilities designed for inpatient rehabilitative, restorative, skilled nursing and other medical treatment for

residents who are medically stable and do not require the intensive care of an acute care or rehabilitative hospital.

Continuing Care Retirement Communities (CCRCs). These communities are designed to provide a continuum of care for residents as they age and their health deteriorates and typically combine on a defined campus integrated senior housing and long-term care facilities.

Medical Office Buildings (MOBs). MOBs are typically on or near an acute care hospital campus. They usually house several different unrelated medical practices, although they can be associated with a large single-specialty or multi-specialty group. MOB tenants include physicians, dentists, psychologists, therapists and other healthcare providers, with space devoted to patient examination and treatment, diagnostic imaging, outpatient surgery and other outpatient services.

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How We Do It

Using a three-prong foundation that focuses on proactive capital management, active portfolio management and quality funds from operations (FFO) growth, we typically invest in senior housing, long-term care facilities and medical office buildings as provided below.

Senior Housing and Long-Term Care (Including CCRCs). We primarily make our investments in these properties passively by acquiring an ownership interest in facilities and leasing them to unaffiliated tenants under triple-net master leases that transfer the obligation for all facility operating costs (insurance, property taxes, utilities, maintenance, capital improvements, etc.) to the tenants. In addition, but to a much lesser extent because we view the risks of this activity to be greater, from time to time, we extend mortgage loans and other financing to tenants, generally at higher rates than we charge for rent on our owned facilities. Currently, about 93% of our revenues from this area are derived from our leases, with the remaining 7% from our mortgage loans and other financing.

Medical Office Buildings (MOBs). Through 2007, we have primarily made our investments in MOBs through joint ventures with specialists in this sector. Our partner typically manages the venture and provides property management services. Since an MOB generally has several tenants under separate leases, these services typically include rent collection from disparate tenants, re-marketing space as it becomes vacant and other day-to-day property management. In addition, to the extent the leases are not triple-net, the services include active management and responsibility for many of the MOB s associated operating expenses (although many of these are, or can effectively be, passed through to the tenants as well).

How We Measure Our Progress Funds from Operations

We believe that FFO is an important non-GAAP supplemental measure of operating performance because it excludes the effect of depreciation and gains (losses) from sales of facilities (both of which are based on historical costs which may be of limited relevance in evaluating current performance). Additionally, FFO is widely used by industry analysts as a measure of operating performance for equity REITs. We therefore discuss FFO, although it is a measurement that is not defined by accounting principles generally accepted in the United States. We calculate FFO in accordance with the National Association of Real Estate Investment Trusts definition. FFO does not represent cash generated from operating activities as defined by accounting principles generally accepted in the United States (it does not include changes in operating assets and liabilities) and, therefore, should not be considered as an alternative to net income as the primary indicator of operating performance or to cash flow as a measure of liquidity.

What We Have Accomplished Over the Last Three Years

We have enjoyed numerous successes since the end of 2004, perhaps the most notable of which are as follows:

Management Smooth Senior Management Transition. The entire senior management team was reconstituted during 2004 and 2005. Douglas Pasquale became our Chief Executive Officer, followed shortly by the promotion of Donald Bradley to Chief Investment Officer, the hiring of Abdo Khoury as Chief Portfolio Officer and his subsequent promotion to Chief Financial and Portfolio Officer, coupled with the promotion of David Snyder to Vice President and Controller.

Investments. We invested, directly and through our consolidated and unconsolidated joint ventures, $2.3 billion in the last three years, after having invested only $575.0 million in the previous three-year period. In addition, with over $1.0 billion of closed investments in

2007, we achieved our fourth consecutive record investment year.

- Ø *Doubled Investment Portfolio* Our net investments in real estate have grown from $1.6 billion at the end of 2004 to $3.0 billion at the end of 2007.

- Ø *Increased Focus on Private Pay Senior Housing* Due in large part to our extensive senior housing operating backgrounds, we have been able to acquire a variety of senior housing portfolios that have increased the private pay component of our revenues from 52% at the end of 2004 to 71% at the end of 2007.

- Ø *Further Asset Diversification with Investment in Medical Office Buildings* In the first quarter of 2006, we completed our first investment in MOBs. At the end of 2007, this asset class represented 10% of our investments and, as described in greater detail below under Focus and Outlook for 2008 , is expected to grow substantially as a result of our strategic initiative dedicated to the establishment of a full service MOB platform.

Capital More Flexible and Diverse Structure and Conservative Balance Sheet. Our overall capital goal has been to balance the debt and equity components of our capital structure, increase our sources of capital, enhance our credit statistics, preserve and strengthen our investment grade credit ratings (Moody s Investors Service: Baa3, Standard & Poor s Ratings Service: BBB- and Fitch Ratings: BBB-) and improve our cost of capital to position ourselves to make accretive acquisitions in an increasingly competitive market. We believe we have accomplished all of these goals, with the following items being particularly noteworthy:

- Ø *Credit Facility* Increased from $400 million at the end of 2004 to our current $700 million facility with substantially improved terms.

- Ø *Capital Markets* Issued approximately $265 million of equity and $900 million of long-term debt in marketed deals with industry standard covenants.

- Ø *Controlled Equity Offering* Implemented a program in 2006 under which we periodically issue equity at an average price over the volume weighted average price, subject to fees of under 2%. To date, we have issued approximately 15 million shares of common stock under this program, resulting in net proceeds of approximately $423 million.

- Ø *Institutional Joint Venture Capital* Formed a joint venture in January 2007 with a state pension fund investor advised by Morgan Stanley Real Estate to provide an additional capital source. The joint venture has invested $531 million in assisted and independent living facilities, skilled nursing facilities and continuing care retirement communities, including $227 million in facilities acquired by the joint venture from us, and has an approved capacity to invest up to $975 million in these property types.

- Ø *Asset Management Capital* Sold 36 skilled nursing facilities primarily located in Texas with an average age of 35 years for $128 million (an 8.5% capitalization rate on our rent) in 2007 and invested a total of $362 million in 2007 in skilled nursing facilities, including $151 million through our unconsolidated joint venture in much newer skilled nursing facilities with an average starting rent rate of 8.3%. This follows the 2006 sale to Brookdale of senior housing assets previously leased to them of about $150 million (a 6.7% capitalization rate on our rent), with the proceeds reinvested at an 8.3% starting rent rate in new investments with new growth oriented customers.

Portfolio Management Implemented Sophisticated Program. Since the end of 2004, we have dramatically upgraded our portfolio management program by developing a proprietary software system and adding five dedicated portfolio management personnel. We believe we now have one of the most sophisticated portfolio management programs in our industry.

Dividend Secure and Growing. We have lowered our dividend coverage ratio (dividends per share divided by normalized FFO per share) from 90% at the end of 2004 to 79% at the end of 2007 while raising our annual dividend by 11%.

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Focus and Outlook for 2008

In 2008 we will focus on improving our net income and FFO on an absolute and per share basis and further diversifying our portfolio. We will also explore alternative capital sources, investment structures, joint ventures and property types that would enable us to compete more effectively in the markets in which we currently invest.

On February 25, 2008, we announced we have entered into an agreement with Pacific Medical Buildings LLC, a California limited liability company (PMB), and certain of its affiliates, to acquire up to 18 MOBs for $747.6 million. The 18 MOBs, which comprise approximately 1.6 million square feet and include six that are currently in development, are located in California (12), Nevada (3), Hawaii (1), Oregon (1) and Arizona (1). The acquisition of each of the MOBs is subject to the satisfaction of customary closing conditions. Fourteen of the MOBs are expected to be acquired in 2008, two in 2009 and two in 2010. At the first closing under the agreement with PMB, we will enter into an agreement with PMB in which we will obtain the right, but not the obligation, to acquire up to $1 billion of MOBs to be developed by PMB over the following seven years. We also entered into an agreement with PMB to acquire a 50% interest in PMB Real Estate Services LLC (PMBRES), a full service property management company. In consideration for the 50% interest, we will pay $1 million at closing, and may make additional payments in the future based on operating profits through 2010. PMBRES will provide property and asset management services for the MOBs that will be acquired in this transaction and for other facilities we acquired in 2007. It will receive an annual asset management fee of 0.65% of revenues, an annual property management fee of 4.0% of revenues and standard leasing and construction management fees.

With respect to our triple-net lease business, we expect the rent escalators in our leases, generally between 1% and 3%, to generate substantial net income growth and FFO growth. While the market remains extremely competitive, we continue to see potentially attractive investment opportunities that we will carefully evaluate.

In management s view, there are several principal near-term challenges we face in achieving our business objectives. The first principal challenge is closing our announced transaction with PMB to achieve our strategic initiative dedicated to the establishment of a full service MOB platform. This will entail the successful completion of our confirmatory due diligence and the fulfillment of a number of closing conditions, many of which are outside our control. The second principal challenge is the continued availability of competitively priced capital. This in turn is largely dependent on external factors such as interest rates, debt capital market volatility and availability and equity market volatility. During the second half of 2007 and early 2008, both the debt and equity markets have been generally very unfavorable, although there have occasionally been periods with good availability and pricing. In addition, if there is a recession during 2008, it could further limit our access to capital. The third principal challenge we face is possible further consolidation at the REIT or operator levels which is likely to result in better capitalized competitors and fewer customers, respectively. Finally, although we think less likely, there may be operator financial problems that lead to more extensive restructurings or tenant disruptions than we currently expect. This could be unique to a particular operator or it could be industry wide, such as federal or state governmental reimbursement reductions in the case of our skilled nursing facilities as governments work through their budget deficits, reduced occupancies for our assisted and independent living facilities due to general economic and other factors or increases in liability insurance premiums or other expenses.

Critical Accounting Estimates

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions, including those that impact our most critical accounting policies. We base our estimates and assumptions on historical experience and on various other factors

that we believe are reasonable under the circumstances. Actual results may differ from these estimates. We believe the following are our most critical accounting policies.

Revenue Recognition

Rental income from operating leases is recognized in accordance with accounting principles generally accepted in the United States, including Statement of Financial Accounting Standards (SFAS) No. 13 *Accounting for Leases* and SEC Staff Accounting Bulletin (SAB) No. 101 *Revenue Recognition* as amended by SEC SAB No. 104. Our leases generally contain annual escalators. Most of our leases contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent to be paid over the life of a lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption Other assets on our balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of straight-line rents in accordance with the applicable accounting standards and our reserve policy and defer recognition of straight-line rent if its collectibility is not reasonably assured. Certain leases contain escalators contingent on revenues or other factors, including increases based solely on changes in the Consumer Price Index. Such revenue increases are recognized over the lease term as the related contingencies occur.

Our assessment of the collectibility of straight-line rents is based on several factors, including the financial strength of the tenant and any guarantors, the historical operations and operating trends of the facility, the historical payment pattern of the tenant, the type of facility and whether we intend to continue to lease the facility to the current tenant, among others. If our evaluation of these factors indicates we may not receive the rent payments due in the future, we defer recognition of the straight-line rental income and, depending on the circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. If our assumptions or estimates regarding the collectibility of future rent payments required by a lease change, we may have to record a reserve to reduce or further reduce the rental revenue recognized or to reserve or further reserve the existing straight-line rent receivable balance.

We recorded $2.9 million of revenues in excess of cash received during 2007, $0.8 million of revenues in excess of cash during 2006 and $1.0 million of cash received in excess of revenues during 2005. We have straight-line rent receivables, net of reserves, recorded under the caption Other assets on our balance sheets of $10.7 million at December 31, 2007, and $7.8 million at December 31, 2006. We evaluate the collectibility of the straight-line rent receivable balances on an ongoing basis and provide reserves against receivables we believe may not be fully recoverable. The ultimate amount of straight-line rent we realize could be less than amounts recorded.

Depreciation and Useful Lives of Assets

We calculate depreciation on our buildings and improvements using the straight-line method based on estimated useful lives ranging up to 40 years, generally from 20 to 40 years depending on factors including building type, age, quality and location. A significant portion of the cost of each property is allocated to buildings. For our triple-net leased buildings, this amount generally approximates 90%. For medical office buildings that are not leased under a single triple-net lease, this percentage may be substantially lower as we allocate purchase prices in accordance with SFAS No. 141 *Business Combinations* (SFAS No. 141) which generally results in substantial allocations to assets such as lease-up intangible assets, above/below market tenant and ground lease intangible assets and in-place lease intangible assets, collectively Intangible lease assets , included in the caption Other assets on our balance sheets.

The allocation of the cost between land and building, and the determination of the useful life of a property are based on management s estimates. We calculate depreciation and amortization on equipment and lease costs using the straight-line method based on estimated useful lives of up to five years or the lease term, whichever is appropriate. We amortize intangible lease assets over the remaining lease terms of the respective leases. We review and adjust useful lives periodically. If we do not allocate appropriately between land and building or we incorrectly estimate the useful lives of our assets, our computation of depreciation and amortization will not appropriately reflect the usage of the assets over future periods. If we overestimate the useful life of an asset, the depreciation expense related to the asset will be understated, which could result in a loss if the asset is sold in the future.

Asset Impairment

We review our long-lived assets individually on a quarterly basis to determine if there are indicators of impairment in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS No. 142) and SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Indicators may include, among others, a tenant s inability to make rent payments, operating losses or negative operating trends at the facility level, notification by a tenant that it will not renew its lease, or a decision to dispose of an asset or adverse changes in the fair value of any of our properties. For operating assets, if indicators of impairment exist, we compare the undiscounted cash flows from the expected use of the property to its net book value to determine if impairment exists. If the sum of the future estimated undiscounted cash flows is higher than the current net book value, in accordance with SFAS Nos. 142 and 144, we conclude no impairment exists. If the sum of the future estimated undiscounted cash flows is lower than its current net book value, we recognize an impairment loss for the difference between the net book value of the asset and its estimated fair value. To the extent we decide to sell an asset, we recognize an impairment loss if the current net book value of the asset exceeds its fair value less selling costs. The above analyses require us to determine whether there are indicators of impairment for individual assets, to estimate the most likely stream of cash flows from operating assets and to determine the fair value of assets that are impaired or held for sale. If our assumptions, projections or estimates regarding an asset change in the future, we may have to record an impairment charge to reduce or further reduce the net book value of such asset. No impairment charges were recorded during the year ended December 31, 2007. During the year ended December 31, 2006, we recognized impairment charges of $0.1 million related to two skilled nursing facilities in assets held for sale to write them down to their estimated fair values less selling costs.

Collectibility of Receivables

We evaluate the collectibility of our rent, mortgage loans and other receivables on a regular basis based on factors including, among others, payment history, the financial strength of the borrower and any guarantors, the value of the underlying collateral, the operations and operating trends of the underlying collateral, if any, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. If our assumptions or estimates regarding the collectibility of a receivable change in the future, we may have to record a reserve to reduce or further reduce the carrying value of the receivable.

Impact of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value for assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective January 1, 2008 for financial assets or liabilities or nonfinancial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 is effective January 1, 2009 for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. SFAS No. 157 is not expected to have a material impact on our results of operations or financial position.

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In September 2006, the FASB issued SFAS No. 158 *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires recognition of the funded status of such plans as an asset or liability, with changes in the funded status recognized through comprehensive income in the year in which they occur. These provisions of SFAS No. 158 were effective December 31, 2006 and were adopted at that time. Additionally, SFAS No. 158 requires measurement of a plan s assets and its obligations at the end of the employer s fiscal year, effective December 31, 2008. SFAS No. 158 has not had, and is not expected to have, a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective January 1, 2008. The adoption of SFAS No. 159 is not expected to have a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51* (SFAS No. 160). SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and to the noncontrolling interest. SFAS No. 160 is effective January 1, 2009. We are currently evaluating the impact the adoption of SFAS No. 160 will have on our results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141R). SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. Under SFAS No. 141R, certain transaction costs that have historically been capitalized as acquisition costs will be expensed. SFAS No. 141R is effective for business combinations completed on or after January 1, 2009. We are currently evaluating the impact the adoption of SFAS No. 141R will have on our results of operations and financial position.

Operating Results

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Triple-net lease rental income increased $69.5 million, or 31%, in 2007 as compared to 2006. The increase was primarily due to rental income from 81 facilities acquired in 2007, 84 facilities acquired during 2006 and rent increases at existing facilities. We also recognized $2.4 million of triple-net lease rental income related to non-recurring settlements of delinquent tenant obligations.

Operating rent was generated by our multi-tenant medical office buildings and increased $6.4 million, or 66%, in 2007 as compared to 2006. The increase was primarily due to operating rent from 30 multi-tenant medical office buildings acquired in 2007, including 22 medical office buildings acquired through our consolidated joint ventures and to recognizing 12 months of rent in 2007 as compared to approximately 11 months of rent in 2006 for 21 multi-tenant medical office buildings acquired in 2006 through one of our consolidated joint ventures.

Interest and other income increased $8.5 million, or 64%, in 2007 as compared to 2006. The increase was primarily due to two loans funded and four mortgage loans and five other loans acquired during 2007, five loans funded during 2006 and commitment fees included in other income, partially offset by loan repayments. We also recognized $1.3 million of other income related to non-recurring settlements of delinquent tenant obligations.

Interest and amortization of deferred financing costs increased $12.0 million, or 13%, in 2007 as compared to 2006. The increase was primarily due to increased borrowings to fund acquisitions in 2007 and 2006, including the issuance of $300 million of notes in October 2007 and $350 million of notes in July 2006, and the assumption of $55.7 million of secured debt during 2007 and $134.5 million during 2006, partially offset by interest savings from the prepayment of $25.4 million of secured debt and the transfer of $4.7 million of secured debt during 2007 and the prepayment of $41.8 million of secured debt during 2006. In addition, $32.6 million of secured debt was transferred to the unconsolidated joint venture we have with a state pension fund investor in connection with our sale of the related facilities to the unconsolidated joint venture.

Depreciation and amortization increased $28.0 million, or 41%, in 2007 as compared to 2006. The increase was primarily due to the acquisition of 109 facilities, including 30 multi-tenant medical office buildings, in 2007 and 105 facilities, including 21 multi-tenant medical office buildings, during 2006.

General and administrative expenses increased $8.8 million, or 56%, in 2007 as compared to 2006. The increase was primarily due to increased compensation expense, including the amortization of stock-based compensation, other performance based awards and increased staff levels, and increases in other general corporate expenses.

Medical office building operating expenses relate to the operations of our multi-tenant medical office buildings and increased $2.5 million, or 40%, in 2007 as compared to 2006. The increase was primarily due to operating expenses from 30 multi-tenant medical office buildings acquired in 2007, including 22 medical office buildings acquired through our consolidated joint ventures and to recognizing 12 months of expense in 2007 as compared to approximately 11 months of expense in 2006 for 21 multi-tenant medical office buildings acquired in 2006 through one of our consolidated joint ventures.

Income from unconsolidated joint venture represents our share of the income generated by our joint venture with a state pension fund investor and our management fee calculated as a percentage of the equity investment in the joint venture. The joint venture made its first investments in March 2007.

Gain on sale of facilities to unconsolidated joint venture represents 75% of the total gain related to the sale of facilities by us to this joint venture. The other 25% of the gain, equating to our ownership share of the joint venture, was deferred and is included in the caption Accounts payable and accrued liabilities on our balance sheets. Please see the caption Investment in Unconsolidated Joint Venture below for more information regarding the unconsolidated joint venture.

SFAS No. 144 requires the operating results of any assets with their own identifiable cash flows that are disposed of or held for sale and in which we have no continuing interest be removed from income from continuing operations and reported as discontinued operations. The operating results for any such assets for any prior periods presented must also be reclassified as discontinued operations. If we have a continuing investment, as in the sales to our unconsolidated joint venture, the operating results remain in continuing operations. Discontinued operations income decreased $42.1 million in 2007 as compared to 2006. Discontinued operations income of $78.5 million for 2007 was comprised of gains on sale of $72.1 million and rental income of $10.8 million, partially offset by depreciation of $4.1 million and interest expense of $0.3 million. Discontinued operations income of $120.6 million for 2006 was comprised of gains on sale of $96.8 million, rental income of $33.6 million and

interest and other income of $0.2 million, partially offset by depreciation of $9.5 million, interest expense of $0.3 million, impairment charges of $0.1 million and general and administrative expenses of $0.1 million. The difference in the composition of discontinued operations income, excluding the gains, was

primarily caused by the inclusion of income from facilities sold in 2006 and 2007 in discontinued operations in 2006 while only income from facilities sold in 2007 is included in discontinued operations in 2007. We expect to have future sales of facilities or reclassifications of facilities to assets held for sale, and the related income or loss would be included in discontinued operations unless the facilities were transferred to an entity in which we maintain an interest.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Triple-net lease rental income increased $52.6 million, or 31%, in 2006 as compared to 2005. The increase was primarily due to rental income from 84 facilities acquired in 2006, 64 facilities acquired during 2005 and rent increases at existing facilities.

Operating rent was generated by the multi-tenant medical office building portfolio we acquired during the first quarter of 2006 through one of our consolidated joint ventures.

Interest and other income increased $2.9 million, or 28%, in 2006 as compared to 2005. The increase was primarily due to five loans funded during 2006, two loans funded during 2005 and a lease assumption fee included in other income, partially offset by loan repayments.

Interest and amortization of deferred financing costs increased $23.0 million, or 34%, in 2006 as compared to 2005. The increase was primarily due to increased borrowings to fund acquisitions in 2006 and 2005, including the issuance of $350 million of notes in July 2006, an increase in the interest rates on our floating rate debt, the assumption of $134.5 million of secured debt during 2006 and $70.5 million during 2005 and obtaining a loan on the medical office building portfolio for $32.0 million, partially offset by interest savings from the prepayment of $41.8 million of secured debt during 2006 and the extinguishment of $131.8 million of notes in August 2005.

Depreciation and amortization increased $23.6 million, or 52%, in 2006 as compared to 2005. The increase was primarily due to the acquisition of 105 facilities, including 21 multi-tenant medical office buildings, in 2006 and 64 facilities during 2005, as well as the amortization of lease related intangible assets in one of our consolidated joint ventures.

General and administrative expenses increased $1.4 million, or 10%, in 2006 as compared to 2005. The increase was primarily due to the amortization of restricted stock grants and increases in other general corporate expenses.

Medical office building operating expenses relate to the operations of the multi-tenant medical office building portfolio that was acquired during the first quarter of 2006 through one of our consolidated joint ventures.

During 2005, we recognized an impairment charge of $0.3 million in continuing operations. The impairment related to a receivable from the operator of two facilities, one of which was impaired for $6.7 million in 2005, which portion of the impairment is reported in discontinued operations because we transferred the building to assets held for sale

SFAS No. 144 requires the operating results of any assets with their own identifiable cash flows that are disposed of or held for sale and in which we have no continuing interest be removed from income from continuing operations and reported as discontinued operations. The operating results for any such assets for any prior periods presented must also be reclassified as discontinued operations. If we have a continuing investment, as in the sales to our unconsolidated joint venture, the operating results remain in continuing operations. Discontinued operations income increased $95.9 million in 2006 as compared to 2005. Discontinued operations income of $120.6 million for 2006 was comprised of gains on sale of $96.8 million, rental income of $33.6

million and interest and other income of $0.2 million, partially offset by depreciation of $9.5 million, interest expense of $0.3 million, impairment charges of $0.1 million and general and administrative expenses of $0.1 million. Discontinued operations income of $24.6 million for 2005 was comprised of rent revenue of $42.2 million and gains on sale of $4.9 million, partially offset by depreciation of $12.3 million, asset impairment charges of $9.7 million, interest expense of $0.3 million and general and administrative expenses of $0.1 million. The difference in the composition of discontinued operations income (excluding the gains and impairments) was primarily caused by the fact that income from facilities sold during 2005 and 2006 is included in discontinued operations in 2005 while only income from facilities sold in 2006 is included in discontinued operations in 2006. We expect to have future sales of facilities or reclassifications of facilities to assets held for sale, and the related income or loss would be included in discontinued operations unless the facilities were transferred to an entity in which we maintain an interest.

Our leases and mortgages generally contain provisions under which rents or interest income increase with increases in facility revenues and/or increases in the Consumer Price Index. If facility revenues and/or the Consumer Price Index do not increase, our revenues may not increase. Rent levels under renewed leases will also impact revenues. As of December 31, 2007, we had leases on 10 facilities expiring in 2008. Tenant purchase option exercises would decrease rental income. We believe our tenants may exercise purchase options on assets with option prices totaling approximately $46 million during 2008.

We expect to make additional acquisitions during 2008, although we cannot predict the quantity and timing of any such acquisitions. As we make additional investments in facilities, depreciation and/or interest expense will also increase. We expect any such increases to be at least partially offset by associated rental or interest income. While additional investments in healthcare facilities would increase revenues, facility sales or mortgage repayments would serve to offset any revenue increases and could reduce revenues.

Investment in Consolidated Medical Office Building Joint Ventures

NHP/Broe, LLC

In December 2005, we entered into a joint venture with The Broe Companies (Broe) called NHP/Broe, LLC (Broe I) to invest in multi-tenant medical office buildings. We hold a 90% equity interest in the venture and Broe holds a 10% equity interest. Broe is the managing member of Broe I, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies. No investments were made by this joint venture prior to 2006. All intercompany balances with the Broe I joint venture have been eliminated for purposes of our consolidated financial statements.

During 2007, the Broe I joint venture funded $0.9 million in capital improvements at certain facilities in accordance with existing lease provisions.

During 2007, the Broe I joint venture sold two of five buildings within one medical office building campus for $0.9 million. The sale resulted in a gain of $0.4 million, of which $0.3 million ($0.1 million representing Broe s share of the gain) is included in gain on sale of facilities in discontinued operations.

During 2007, cash distributions from the Broe I joint venture of $0.5 million and $0.1 million were made to us and to Broe, respectively. During 2006, cash distributions from the Broe I joint venture of $1.4 million and $0.2 million were made to us and to Broe, respectively.

NHP/Broe II, LLC

In February 2007, we entered into a second joint venture with Broe called NHP/Broe II, LLC (Broe II) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and Broe holds a 5% equity interest. Broe is the managing member of Broe II, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies. All intercompany balances with the Broe II joint venture have been eliminated for purposes of our consolidated financial statements.

During 2007, the Broe II joint venture acquired 16 multi-tenant medical office buildings located in four states. The purchase price totaled $94.0 million, of which $60.2 million was allocated to real estate with the remaining $33.8 million allocated to other assets and liabilities. The acquisitions were originally financed with a bridge loan from us of $5.7 million and capital contributions of $83.9 million and $4.4 million, from us and Broe, respectively. The bridge loan from us was replaced on August 1, 2007 by third party mortgage financing in the amount of $5.2 million (funding up to $5.9 million is available under the financing agreements). The Broe II joint venture subsequently placed an additional $4.0 million of mortgage financing on a portion of the portfolio resulting in cash distributions reducing net capital contributions to approximately $80.1 million and $4.2 million for us and Broe, respectively.

During 2007, the Broe II joint venture also funded $0.4 million in capital improvements at certain facilities in accordance with existing lease provisions.

During 2007, cash distributions from the Broe II joint venture of $0.8 million and $44,000 were made to us and to Broe, respectively.

McShane/NHP JV, LLC

In December 2007, we entered into a joint venture with McShane Medical Office Properties, Inc. (McShane) called McShane/NHP JV, LLC (McShane/NHP) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and McShane holds a 5% equity interest. McShane is the managing member of McShane/NHP, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies. All intercompany balances with the McShane/NHP joint venture have been eliminated for purposes of our consolidated financial statements.

In December 2007, the McShane/NHP joint venture acquired six multi-tenant medical office buildings located in one state. The purchase price totaled $46.5 million, of which $42.6 million was allocated to real estate with the remaining $3.9 million allocated to other assets and liabilities. The acquisitions were originally financed with a bridge loan from us of $31.2 million and capital contributions of $14.5 million and $0.8 million, from us and McShane, respectively.

No cash distributions were made from the McShane/NHP joint venture during 2007.

Investment in Unconsolidated Joint Venture

In January 2007, we entered into a joint venture with a state pension fund investor. The purpose of the joint venture is to acquire and develop assisted living, independent living and skilled nursing facilities. We manage and own 25% of the joint venture, which will fund its investments with approximately 40% equity contributions and 60% debt. The original approved investment target was $475 million, but we exceeded that amount in 2007, and the total potential investment amount has been increased to $975 million. The financial statements of the joint venture are not consolidated in our financial statements as our joint venture partner has substantive participating rights, and our investment is accounted for using the equity method.

During 2007, the joint venture acquired 19 assisted and independent living facilities, 14 skilled nursing facilities and one continuing care retirement community located in nine states for approximately $531 million. The acquisitions were initially financed by the assumption of approximately $32 million of mortgage financing, approximately $182 million of new mortgage financing, capital contributions from our joint venture partner of approximately $238 million and capital contributions from us of approximately $79 million. The joint venture subsequently placed approximately $102 million of mortgage financing on portions of the portfolio resulting in cash distributions reducing net capital contributions to approximately $161 million and $54 million for our joint venture partner and us, respectively. Fourteen of the assisted and independent living facilities, four of the skilled

nursing facilities and the continuing care retirement community with a total cost of approximately $227 million were acquired by the joint venture from us, and the related leases were transferred to the joint venture. In addition, the joint venture acquired title to and entered into a lease for one of the skilled nursing facilities for which we previously provided a mortgage loan in the amount of $8.3 million, from the former borrower concurrently with the repayment of such loan to us by the former borrower.

Liquidity and Capital Resources

Operating Activities

Cash provided by operating activities increased $65.1 million, or 37%, in 2007 as compared to 2006. This was primarily due to revenue increases from our owned facilities and mortgage loans as a result of acquisitions and funding of mortgage loans during 2007 and 2006 and rent increases at existing facilities, as well as the collection of certain receivables and amounts included in the caption Other assets on our balance sheets, offset in part by increased interest and general and administrative expenses and revenue reductions caused by the sale of facilities during 2007. There have been no significant changes in the underlying sources and uses of cash provided by operating activities.

Investing Activities

During 2007, we acquired 40 assisted and independent living facilities, 29 skilled nursing facilities, three continuing care retirement communities and six triple-net medical office buildings in 18 separate transactions for an aggregate investment of $436.9 million, including the assumption of $38.1 million of mortgage financing and $7.3 million of security deposits and other holdback items. We also acquired 30 multi-tenant medical office buildings, 22 of which were acquired through our consolidated joint ventures, in seven separate transactions for an aggregate investment of $272.5 million, including the assumption of $17.6 million of mortgage financing and $0.1 million of security deposits and other holdback items. We also funded $22.2 million in expansions, construction and capital improvements at certain triple-net leased facilities in accordance with existing lease provisions. Such expansions, construction and capital improvements generally result in an increase in the minimum rents earned by us on these facilities either at the time of funding or upon completion of the project. At December 31, 2007, we had committed to fund additional expansions, construction and capital improvements of approximately $144.9 million.

During 2007, we also funded $1.3 million in capital improvements at certain facilities in accordance with existing lease provisions through our two consolidated joint ventures with Broe.

During 2007, we also acquired 19 assisted and independent living facilities, 14 skilled nursing facilities and one continuing care retirement community through our unconsolidated joint venture with a state pension fund investor for approximately $531 million. The acquisitions were initially financed by the assumption of approximately $32 million of mortgage financing, approximately $182 million of new mortgage financing, capital contributions from our joint venture partner of approximately $238 million and capital contributions from us of approximately $79 million. The joint venture subsequently placed approximately $102 million of mortgage financing on portions of the portfolio resulting in cash distributions reducing net capital contributions to approximately $161 million and $54 million for our joint venture partner and us, respectively. Fourteen of the assisted and independent living facilities, four of the skilled nursing facilities and the continuing care retirement community were acquired by the joint venture from us, and the related leases were transferred to the joint venture.

During 2007, we sold 14 assisted and independent living facilities, four skilled nursing facilities and one continuing care retirement community in four separate transactions to the unconsolidated joint venture we have with a state pension fund investor for $226.7 million from which we received net cash proceeds of $161.5 million ($31.3 million representing our retained ownership interest in the joint venture, and $33.9 million representing debt and other liabilities assumed by the joint venture). The related leases were transferred to the joint venture.

The sales resulted in a gain of $61.4 million, of which $46.0 million is included in gain on sale of facilities to unconsolidated joint venture in continuing operations ($15.4 million representing that portion of the gain attributable to our retained ownership interest in the joint venture, which was deferred).

During 2007, we sold seven skilled nursing facilities and one independent and assisted living facility to the tenants of the facilities pursuant to purchase options, none of which were previously transferred to assets held for sale, for net cash proceeds of $43.2 million. We sold one skilled nursing facility to the tenant of the facility for net cash proceeds of $1.1 million. The sales resulted in a total gain of $11.4 million that is included in gain on sale of facilities in discontinued operations.

During 2007, we sold 36 skilled nursing facilities leased to Complete Care Services, Inc. for net cash proceeds of $124.7 million. The proceeds from this transaction were used to repay amounts outstanding under our Credit Facility. This transaction resulted in a gain of $60.1 million that is included in gain on sale of facilities in discontinued operations.

During 2007, the Broe I joint venture sold two of five buildings within one medical office building campus for $0.9 million. The sale resulted in a gain of $0.4 million, of which $0.3 million ($0.1 million representing Broe s share of the gain) is included in gain on sale of facilities in discontinued operations.

During 2007, we acquired four mortgage loans secured by six assisted and independent living facilities and four skilled nursing facilities totaling $19.1 million (including a premium of $0.4 million). One of the four mortgage loans acquired was prepaid in July 2007 in the amount of $4.7 million. In connection with the acquisition of the four mortgage loans, we acquired $27.7 million of loans secured by leasehold mortgages and other items which are included in the caption Other assets on our balance sheets. We also funded $1.3 million on existing mortgage loans.

Financing Activities

At December 31, 2007, we had $659 million available under our $700 million revolving senior unsecured credit facility (Credit Facility). At our option, borrowings under the Credit Facility bear interest at the prime rate (7.25% at December 31, 2007) or applicable LIBOR plus 0.85% (5.48% at December 31, 2007). We pay a facility fee of 0.15% per annum on the total commitment under the agreement. The Credit Facility expires on December 15, 2010. The maturity date may be extended by one additional year at our discretion.

Our Credit Facility requires us to maintain, among other things, the financial covenants detailed below:

Covenant	**Requirement**	**Actual**
	(Dollar amounts in thousands)	
Minimum net asset value	$ 820,000	$ 2,865,130
Maximum total indebtedness to capitalization value	60%	36%
Minimum fixed charge coverage ratio	1.75	2.90
Maximum secured indebtedness ratio	30%	9%
Maximum unencumbered asset value ratio	60%	31%

Our Credit Facility allows us to exceed the 60% requirements, up to a maximum of 65%, on the maximum total indebtedness to capitalization value and maximum unencumbered asset value ratio for up to two consecutive fiscal quarters. As of December 31, 2007, we were in compliance with all of the above covenants, and we expect to remain in compliance throughout 2008.

On October 19, 2007, we issued $300 million of notes due February 1, 2013 at a fixed rate of 6.25% resulting in net proceeds of approximately $297 million. The net proceeds were used to repay amounts outstanding under our Credit Facility and for general corporate purposes.

During August and September 2007, we entered into four six-month Treasury lock agreements totaling $250 million at a weighted average rate of 4.212%. We entered into these Treasury lock agreements in order to hedge the expected interest payments associated with a portion of our October 19, 2007 issuance of $300 million of notes.

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The Treasury lock agreements were settled in cash on October 17, 2007 for an amount equal to the present value of the difference between the locked Treasury rates and the unwind rate (equal to the then-prevailing Treasury rate less the forward premium or 4.364%). The prevailing Treasury rate exceeded the rates in the Treasury lock agreements and, as a result, the counterparties to those agreements made payments to us of $1.6 million. The settlement amounts are being amortized over the life of the debt as a yield reduction.

During 2007, we repaid $17.0 million of fixed rate notes with a weighted average rate of 7.31% at maturity and prepaid $4.0 million of fixed rate notes with a rate of 8.25%. The repayments were funded by borrowings on our Credit Facility and by cash on hand.

We anticipate repaying medium-term notes at maturity with a combination of proceeds from borrowings on our Credit Facility and cash on hand. We currently have $10.0 million of notes maturing in 2008. There are also $33.5 million of notes due in 2028 which may be put back to us at their face amount at the option of the holder on November 20th of specified years, including November 20, 2008 and $40.0 million of notes due in 2038 which may be put back to us at their face amount at the option of the holder on July 7th of specified years, including July 7, 2008. Borrowings on our Credit Facility could be repaid by potential asset sales or the repayment of mortgage loans receivable, the potential issuance of debt or equity securities under the shelf registration statement discussed below or cash from operations. Our medium-term notes have been investment grade-rated since 1994. Our credit ratings at December 31, 2007 were Baa3 from Moody s Investors Service, BBB- from Standard & Poor s Ratings Services and BBB- from Fitch Ratings.

In each of 2006 and 2007, we entered into sales agreements with Cantor Fitzgerald & Co. (Cantor) to sell up to 10 million shares of our common stock from time to time through a controlled equity offering program. During 2007, we sold approximately 7,808,000 shares of common stock at a weighted average price of $31.52, resulting in net proceeds of $242.9 million after sales fees.

We sponsor a dividend reinvestment and stock purchase plan that enables existing stockholders to purchase additional shares of common stock by automatically reinvesting all or part of the cash dividends paid on their shares of common stock. The plan also allows investors to acquire shares of our common stock, subject to certain limitations, including a maximum monthly investment of $10,000, at a discount ranging from 0% to 5%, determined by us from time to time in accordance with the plan. The discount during 2007 was 2%. During 2007, we issued approximately 724,000 shares of common stock, at an average price of $30.20, resulting in net proceeds of approximately $21.8 million.

At December 31, 2007, we had a shelf registration statement on file with the Securities and Exchange Commission under which we may issue securities including debt, convertible debt, common and preferred stock. In addition, at December 31, 2007, we had approximately 2,368,000 shares of common stock available for issuance under our dividend reinvestment and stock purchase plan.

Financing for future investments and for the repayment of the obligations and commitments noted above may be provided by borrowings under our Credit Facility discussed above, private placements or public offerings of debt or equity securities, asset sales or mortgage loans receivable payoffs, the assumption of secured indebtedness, mortgage financing on a portion of our owned portfolio or through joint ventures.

We anticipate the possible sale of certain facilities, primarily due to purchase option exercises. In addition, mortgage loans receivable may be prepaid. In the event that there are facility sales or mortgage loan receivable repayments in excess of new investments, revenues may decrease. We anticipate using the proceeds from any facility sales or mortgage loans receivable repayments to provide capital for future investments, to reduce the outstanding balance on our Credit Facility or to repay other borrowings as they mature. Any such reduction in debt levels would result in reduced interest expense that we believe would partially offset any decrease in revenues. We believe the combination of the available balance of $659 million on our $700 million Credit Facility, the availability under the shelf registration statement and our unconsolidated joint venture with a state

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pension fund investor provides sufficient liquidity and financing capability to finance anticipated future investments, maintain our current dividend level and repay borrowings at or prior to their maturity, through 2008.

Off-Balance Sheet Arrangements

The only off-balance sheet financing arrangement that we currently utilize is the unconsolidated joint venture discussed above under the caption Investment in Unconsolidated Joint Venture and in Note 6 to our consolidated financial statements. Except in limited circumstances, our risk of loss is limited to our investment carrying amount. We have no other off-balance sheet arrangements except those described under Contractual Obligations and Cash Requirements.

Contractual Obligations and Cash Requirements

As of December 31, 2007, our contractual obligations are as follows:

	2008	2009 -2010	2011 -2012 (In thousands)	Thereafter	Total
Contractual Obligations:					
Long-term debt	$ 10,000	$ 185,773	$ 493,245	$ 858,632	$ 1,547,650
Interest expense	$ 95,993	$ 183,592	$ 129,925	$ 284,313	$ 693,823
Operating leases	$ 392	$ 785	$ 469	$	$ 1,646
Commitments:					
Capital expenditures	$ 75,852	$ 55,039	$ 14,015	$	$ 144,906

The long-term debt amount shown above includes our senior notes, our notes and bonds payable and the balance on our Credit Facility that expires on December 15, 2010. At our option, we may extend the Credit Facility for one additional year. Prior to, or upon expiration, we expect to replace the Credit Facility rather than repay the outstanding balances.

Interest expense shown above is estimated assuming the balance on the Credit Facility remains constant until its maturity and that the interest rates in effect at December 31, 2007 remain constant for the Credit Facility and the $62.2 million of floating rate notes and bonds payable. Maturities of our senior notes range from 2008 to 2038 (although certain notes may be put back to us at their face amount at the option of the holder at earlier dates) and maturities of our notes and bonds payable range from 2009 to 2037.

Statement Regarding Forward-Looking Disclosure

Certain information contained in this report includes statements that may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. These statements may be identified, without limitation, by the use of forward-looking terminology such as may, will, anticipates, expects, believes, intends, should or comparable terms or the negative thereof. All forward-looking statements included report are based on information available to us on the date hereof. These statements speak only as of the date hereof and we assume no obligation to update such forward-looking statements. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in the statements. Risks and uncertainties related to our transaction with PMB include (without limitation) the following: delay or failure to obtain third party consents; the exclusion of certain properties from the transaction; uncertainty as to whether the transaction will be completed; the failure to achieve the perceived advantages from the transaction; larger than expected or unexpected costs associated with

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the transaction; unexpected liabilities resulting from the transaction; potential litigation associated with the transaction; and the retention of key personnel after the transaction. Other risks and uncertainties associated with our business include (without limitation) the following:

- deterioration in the operating results or financial condition, including bankruptcies, of our tenants;
- non-payment or late payment of rent by our tenants;
- our reliance on two operators for a significant percentage of our revenues;
- occupancy levels at certain facilities;
- our level of indebtedness; changes in the ratings of our debt securities;
- access to the capital markets and the cost of capital;
- government regulations, including changes in the reimbursement levels under the Medicare and Medicaid programs;
- the general distress of the healthcare industry;
- increasing competition in our business sector;
- the effect of economic and market conditions and changes in interest rates;
- the amount and yield of any additional investments;
- our ability to meet acquisition goals;
- the ability of our operators to repay deferred rent or loans in future periods;
- the ability of our operators to obtain and maintain adequate liability and other insurance;
- our ability to attract new operators for certain facilities;
- our ability to sell certain facilities for their book value;

our ability to retain key personnel;

potential liability under environmental laws;

the possibility that we could be required to repurchase some of our medium-term notes;

the rights and influence of holders of our outstanding preferred stock;

changes in or inadvertent violations of tax laws and regulations and other factors that can affect real estate investment trusts and our status as a real estate investment trust; and

the risk factors set forth under the caption Risk Factors in Item 1A.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks related to fluctuations in interest rates on our mortgage loans receivable and debt. We may hold derivative instruments to manage our exposure to these risks, and all derivative instruments are matched against specific debt obligations. The purpose of the following analyses is to provide a framework to understand our sensitivity to hypothetical changes in interest rates as of December 31, 2007. Readers are cautioned that many of the statements contained in these paragraphs are forward-looking and should be read in conjunction with our disclosures under the heading Statement Regarding Forward-Looking Disclosure set forth above.

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We provide mortgage loans to tenants of healthcare facilities as part of our normal operations, which generally have fixed rates, and all mortgage loans receivable are treated as fixed rate notes in the table and analysis below.

We utilize debt financing primarily for the purpose of making additional investments in healthcare facilities. Historically, we have made short-term borrowings on our variable rate unsecured revolving Credit Facility to fund our acquisitions until market conditions were appropriate, based on management s judgment, to issue stock or fixed rate debt to provide long-term financing.

A portion of our secured debt has variable rates

During the twelve months ended December 31, 2007, the borrowings under our unsecured revolving Credit Facility have decreased from $139 million to $41 million.

For fixed rate debt, changes in interest rates generally affect the fair market value, but do not impact earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact fair market value, but do affect the future earnings and cash flows. We generally cannot prepay fixed rate debt prior to maturity. Therefore, interest rate risk and changes in fair market value should not have a significant impact on the fixed rate debt until we would be required to refinance such debt. Holding the variable rate debt balance constant, and including the bank borrowings as variable rate debt due to its nature, each one percentage point increase in interest rates would result in an increase in interest expense for the coming year of approximately $1.0 million.

The first table below details the principal amounts and the average interest rates for the mortgage loans receivable and debt for each category based on the final maturity dates as of December 31, 2007. Certain of the mortgage loans receivable and certain items in the various categories of debt require periodic principal payments prior to the final maturity date. The fair value estimates for the mortgage loans receivable are based on the estimates of management and on rates currently prevailing for comparable loans. The fair market value estimates for debt securities are based on discounting future cash flows utilizing rates we would expect to pay for debt of a similar type and remaining maturity.

	Maturity Date							
	2008	2009	2010	2011	2012	Thereafter	Total Book Value	Fair Value
	(Dollars in thousands)							
Assets								
Mortgage loans receivable, net	$ 28,154	$ 33,387	$ 10,035			$ 50,118	$ 121,694	$ 151,006
Average interest rate	11.29%	9.78%	9.00%			9.56%	10.02%	
Liabilities								
Debt								
Fixed rate	$ 10,000	$ 38,248	$ 73,730	$ 355,343	$ 133,946	$ 833,162	$ 1,444,429	$ 1,192,569
Average interest rate	6.72%	7.33%	6.04%	6.52%	8.03%	6.26%	6.51%	
Variable rate	$	$ 32,795	$	$	$ 3,956	$ 25,470	$ 62,221	$ 62,221
Average interest rate		6.90%			7.83%	3.00%	5.36%	
Unsecured revolving credit facility	$	$	$ 41,000	$	$	$	$ 41,000	$ 41,000
Average interest rate			5.98%				5.98%	

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The book value and fair value at December 31, 2006 of each category presented above was:

	Book Value	Fair Value
	(Dollars in thousands)	
Assets		
Mortgage loans receivable, net	$ 106,929	$ 108,224
Average interest rate	9.56%	
Liabilities		
Debt		
Fixed rate	$ 1,182,545	$ 1,195,035
Average interest rate	6.61%	
Variable rate	$ 60,366	$ 60,366
Average interest rate	5.44%	
Credit facility	$ 139,000	$ 139,000
Average interest rate	6.46%	

Any future interest rate increases will increase the cost of borrowings on our bank line of credit and any borrowings to refinance long-term debt as it matures or to finance future acquisitions.

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Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Nationwide Health Properties, Inc.

We have audited the accompanying consolidated balance sheets of Nationwide Health Properties, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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 Nationwide Health Properties, Inc. as of December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Nationwide Health Properties, Inc. s internal control over financial reporting as of December 31, 2007, 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 19, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Irvine, California

February 19, 2008

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NATIONWIDE HEALTH PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	December 31, 2007	December 31, 2006
ASSETS		
Investments in real estate		
Real estate properties:		
Land	$ 301,100	$ 267,303
Buildings and improvements	2,896,876	2,581,484
	3,197,976	2,848,787
Less accumulated depreciation	(410,865)	(372,201)
	2,787,111	2,476,586
Mortgage loans receivable, net	121,694	106,929
Investment in unconsolidated joint venture	52,637	
	2,961,442	2,583,515
Cash and cash equivalents	19,407	14,695
Receivables, net	3,808	7,787
Assets held for sale		9,484
Other assets	159,696	89,333
	$ 3,144,353	$ 2,704,814
LIABILITIES AND STOCKHOLDERS EQUITY		
Credit facility	$ 41,000	$ 139,000
Senior notes due 2008-2038	1,166,500	887,500
Notes and bonds payable	340,150	355,411
Accounts payable and accrued liabilities	107,844	77,829
Total liabilities	1,655,494	1,459,740
Minority interests	6,166	1,265
Commitments and contingencies		
Stockholders equity:		
Preferred stock $1.00 par value; 5,000,000 shares authorized;		
7.677% Series A Cumulative, none and 900,485 shares issued and outstanding at December 31, 2007 and 2006, respectively, stated at liquidation preference of $100 per share		90,049
7.750% Series B Cumulative Convertible, 1,064,450 and 1,064,500 shares issued and outstanding at December 31, 2007 and 2006, respectively, stated at liquidation preference of $100 per share	106,445	106,450
Common stock $0.10 par value; 200,000,000 shares authorized; issued and outstanding: 94,805,781 and 86,238,468 as of December 31, 2007 and 2006, respectively	9,481	8,624
Capital in excess of par value	1,565,249	1,298,703
Cumulative net income	1,288,751	1,064,293
Other comprehensive income	2,561	1,231
Cumulative dividends	(1,489,794)	(1,325,541)

Total stockholders equity	1,482,693	1,243,809
	$ 3,144,353	$ 2,704,814

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Years ended December 31,		
	2007	**2006**	**2005**
Revenues:			
Rental income:			
Triple net lease rent	$ 291,315	$ 221,797	$ 169,225
Operating rent	16,061	9,700	
	307,376	231,497	169,225
Interest and other income	21,862	13,359	10,437
	329,238	244,856	179,662
Expenses:			
Interest and amortization of deferred financing costs	101,703	89,692	66,718
Depreciation and amortization	96,730	68,771	45,167
General and administrative	24,429	15,656	14,269
Medical office building operating expenses	8,622	6,142	
Impairment of assets			310
Loss on extinguishment of debt			8,565
	231,484	180,261	135,029
Income before unconsolidated entity and minority interests	97,754	64,595	44,633
Income from unconsolidated joint venture	1,958		689
Minority interests in net loss of consolidated joint ventures	212	421	
Gain on sale of facilities to unconsolidated joint venture, net	46,045		
Income from continuing operations	145,969	65,016	45,322
Discontinued operations:			
Gain on sale of facilities, net	72,069	96,791	4,908
Income from discontinued operations	6,420	23,770	19,711
	78,489	120,561	24,619
Net income	224,458	185,577	69,941
Preferred stock dividends	(13,434)	(15,163)	(15,622)
Preferred stock redemption charges			(795)
Income available to common stockholders	$ 211,024	$ 170,414	$ 53,524
Basic per share amounts:			
Income from continuing operations available to common stockholders	$ 1.46	$ 0.64	$ 0.43
Discontinued operations	0.87	1.56	0.37
Income available to common stockholders	$ 2.33	$ 2.20	$ 0.80

Basic weighted average shares outstanding		90,625		77,489		67,311
Diluted per share amounts:						
Income from continuing operations available to common stockholders	$	1.46	$	0.64	$	0.43
Discontinued operations		0.86		1.55		0.36
Income available to common stockholders	$	2.32	$	2.19	$	0.79
Diluted weighted average shares outstanding		91,129		77,879		67,446

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Preferred Stock		Common stock		Capital in excess of	Cumulative	Other comprehensive	Cumulative	Total stockholders
	Shares	Amount	Shares	Amount	par value	net income	income	dividends	equity
Balances at December 31, 2004	2,065	$ 206,450	66,806	$ 6,681	$ 868,091	$ 808,775	$	$ (1,074,171)	$ 815,826
Net income						69,941			69,941
Repurchase of preferred stock	(100)	(9,951)			(795)				(10,746)
Issuance of common stock			1,005	100	21,489				21,589
Stock option amortization					223				223
Preferred dividends								(15,622)	(15,622)
Common dividends								(100,179)	(100,179)
Balances at December 31, 2005	1,965	196,499	67,811	6,781	889,008	878,716		(1,189,972)	781,032
Comprehensive income:									
Net income						185,577			185,577
Gain on Treasury lock agreements							1,204		1,204
Amortization of gain on Treasury lock agreements							(103)		(103)
SFAS No. 158 adoption adjustment							130		130
Comprehensive income									186,808
Issuance of common stock			18,427	1,843	409,533				411,376
Stock option amortization					162				162
Preferred dividends								(15,163)	(15,163)
Common dividends								(120,406)	(120,406)
Balances at December 31, 2006	1,965	196,499	86,238	8,624	1,298,703	1,064,293	1,231	(1,325,541)	1,243,809
Comprehensive income:									
Net income						224,458			224,458
Gain on Treasury lock agreements							1,557		1,557
Amortization of gain on Treasury lock agreements							(279)		(279)
Defined benefit pension plan net actuarial gain							52		52
Comprehensive income									225,788
Redemption of preferred stock	(901)	(90,049)							(90,049)
Conversion of preferred stock		(5)		5					
Issuance of common stock			8,568	852	266,546				267,398
Preferred dividends								(13,434)	(13,434)
Common dividends								(150,819)	(150,819)
Balances at December 31, 2007	1,064	$ 106,445	94,806	$ 9,481	$ 1,565,249	$ 1,288,751	$ 2,561	$ (1,489,794)	$ 1,482,693

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net income	$ 224,458	$ 185,577	$ 69,941
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	100,794	78,261	57,450
Stock-based compensation	4,733	1,701	1,502
Gain on sale of facilities, net	(118,114)	(96,791)	(4,908)
Impairment of assets		83	10,041
Amortization of deferred financing costs	2,523	2,673	2,048
Mortgage loans premium amortization	257		
Straight-line rent	(2,886)	(786)	1,004
Equity in earnings from unconsolidated joint venture	(440)		(565)
Distributions from unconsolidated joint venture	440		901
Minority interests in net loss of consolidated joint ventures	(212)		
Changes in operating assets and liabilities:			
Receivables	3,761	(2,046)	1,729
Other assets	16,833	(15,933)	8,625
Accounts payable and accrued liabilities	8,381	22,679	5,119
Net cash provided by operating activities	240,528	175,418	152,887
Cash flows from investing activities:			
Acquisition of real estate and related assets and liabilities	(670,522)	(874,824)	(164,966)
Proceeds from sale of real estate facilities	314,066	203,991	32,065
Return of investment from unconsolidated joint venture			875
Investment in mortgage and other loans receivable	(48,083)	(5,815)	(13,154)
Principal payments on mortgage loans receivable	16,838	18,343	1,054
Contributions to unconsolidated joint venture	(34,023)		
Distributions from unconsolidated joint venture	26,718		
Net cash used in investing activities	(395,006)	(658,305)	(144,126)
Cash flows from financing activities:			
Borrowings under credit facility	1,009,000	759,000	463,000
Repayment of borrowings under credit facility	(1,107,000)	(844,000)	(425,000)
Borrowings under bridge facility		200,000	
Repayment of borrowings under bridge facility		(200,000)	
Issuance of senior unsecured debt	297,323	346,703	242,797
Repayments of senior unsecured debt	(21,000)	(32,725)	(149,775)
Settlement of cash flow hedges	1,610	1,204	
Issuance of notes and bonds payable	911	32,018	
Principal payments on notes and bonds payable	(34,542)	(47,414)	(21,637)
Issuance of common stock, net	262,527	409,137	19,844
Repurchase of preferred stock	(90,049)		(10,746)
Contributions from minority interests	5,210	1,910	
Distributions to minority interests	(97)	(224)	
Dividends paid	(164,253)	(135,569)	(115,801)
Deferred financing costs	(450)	(2,463)	(9,911)
Net cash provided by (used in) financing activities	159,190	487,577	(7,229)

Increase in cash and cash equivalents	4,712	4,690	1,532
Cash and cash equivalents, beginning of year	14,695	10,005	8,473
Cash and cash equivalents, end of year	$ 19,407	$ 14,695	$ 10,005
Supplemental schedule of cash flow information:			
Interest paid	$ 96,234	$ 78,447	$ 64,315

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Organization

Nationwide Health Properties, Inc., a Maryland corporation, is a real estate investment trust (REIT) that invests primarily in healthcare related senior housing, long-term care properties and medical office buildings. Whenever we refer herein to NHP or to us or use the terms we or our, w are referring to Nationwide Health Properties, Inc. and its subsidiaries, unless the context otherwise requires.

We primarily make our investments by acquiring an ownership interest in senior housing and long-term care facilities and leasing them to unaffiliated tenants under triple-net master leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. We also invest in medical office buildings which are not generally subject to triple-net leases and generally have several tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants), however, some of the medical office buildings may be subject to triple-net leases. In addition, but to a much lesser extent because we view the risks of this activity to be greater, we extend mortgage loans and other financing to tenants from time to time. For the twelve months ended December 31, 2007, approximately 93% of our revenues are derived from our leases, with the remaining 7% from our mortgage loans and other financing activities.

We believe we have operated in such a manner as to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We intend to continue to qualify as such and therefore to distribute at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction and excluding capital gain) to our stockholders. If we qualify for taxation as a REIT, and we distribute 100% of our taxable income to our stockholders, we will generally not be subject to U.S. federal income taxes on our income that is distributed to stockholders. Accordingly, no provision has been made for federal income taxes.

As of December 31, 2007, we had investments in 560 healthcare facilities located in 43 states, consisting of:

Consolidated facilities:

- 260 assisted and independent living facilities;
- 162 skilled nursing facilities;
- 10 continuing care retirement communities;

7 specialty hospitals;

6 triple-net medical office buildings; and

51 multi-tenant medical office buildings, 43 of which are operated by consolidated joint ventures (see Note 5).

Unconsolidated facilities:

19 assisted and independent living facilities;

14 skilled nursing facilities; and

1 continuing care retirement community.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

Mortgage loans secured by:

- 19 skilled nursing facilities;
- 11 assisted and independent living facilities; and
- 1 land parcel.

As of December 31, 2007, our directly owned facilities, other than our multi-tenant medical office buildings, most of which are operated by our consolidated joint ventures (see Note 5), were operated by 83 different healthcare providers, including the following publicly traded companies:

	Number of Facilities Operated
Assisted Living Concepts, Inc.	4
Brookdale Senior Living, Inc.	96
Emeritus Corporation	29
Ensign Group, Inc.	1
Extendicare, Inc.	1
HEALTHSOUTH Corporation	2
Kindred Healthcare, Inc.	1
Sun Healthcare Group, Inc.	4

Two of our triple-net lease tenants each accounted for more than 10% of our revenues at December 31, 2007, as follows:

Brookdale Senior Living, Inc.	16%
Hearthstone Senior Services, L.P.	11%

2. Summary of Significant Accounting Policies

Basis of Presentation

Certain items in prior period financial statements have been reclassified to conform to current year presentation, including those required by Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144).

Principles of Consolidation

The consolidated financial statements include our accounts, the accounts of our wholly-owned subsidiaries and the accounts of our majority owned and controlled joint ventures in accordance with accounting principles generally accepted in the United States (GAAP), including Financial Accounting Standards Board (FASB) Interpretation No. 46R *Consolidation of Variable Interest Entities* and Emerging Issues Task Force Issue 04-5 *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. All material intercompany accounts and transactions have been eliminated.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

Investments in entities that we do not consolidate but for which we have the ability to exercise significant influence over operating and financial policies are reported under the equity method. Under the equity method of accounting, our share of the entity s earning or losses is included in our operating results.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Revenue Recognition

Rental income from operating leases is recognized in accordance with GAAP, including SFAS No. 13 *Accounting for Leases* and SEC Staff Accounting Bulletin (SAB) No. 101 *Revenue Recognition* as amended by SEC SAB No. 104. Our leases generally contain annual escalators. Many of our leases contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent to be paid over the life of a lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption Other assets on our balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of straight-line rents in accordance with the applicable accounting standards and our reserve policy and defer recognition of straight-line rent if its collectibility is not reasonably assured. Certain leases contain escalators contingent on revenues or other factors, including increases based solely on changes in the Consumer Price Index. Such revenue increases are recognized over the lease term as the related contingencies occur.

Our assessment of the collectibility of straight-line rents is based on several factors, including the financial strength of the tenant and any guarantors, the historical operations and operating trends of the facility, the historical payment pattern of the tenant, the type of facility and whether we intend to continue to lease the facility to the current tenant, among others. If our evaluation of these factors indicates we may not receive the rent payments due in the future, we defer recognition of the straight-line rental income and, depending on the circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. If our assumptions or estimates regarding the collectibility of future rent payments required by a lease change, we may adjust our reserve to increase or reduce the rental revenue recognized, and/or to increase or reduce the reserve against the existing straight-line rent receivable balance.

We recorded $2.9 million of revenues in excess of cash received during 2007, $0.8 million of revenues in excess of cash received during 2006 and $1.0 million of cash received in excess of revenues during 2005. We have straight-line rent receivables, net of reserves, recorded under the caption Other assets on our balance sheets of $10.7 million at December 31, 2007 and $7.8 million at December 31, 2006. We evaluate the collectibility of the straight-line rent receivable balances on an ongoing basis and provide reserves against receivables we believe may not be fully recoverable. The ultimate amount of straight-line rent we realize could be less than amounts currently recorded.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

Gain on Sale of Facilities

We recognize sales of facilities only upon closing. Payments received from purchasers prior to closing are recorded as deposits. Gains on facilities sold are recognized using the full accrual method upon closing when the collectibility of the sales price is reasonably assured, we have received adequate initial investment from the buyer, we are not obligated to perform significant activities after the sale to earn the gain and other profit recognition criteria have been satisfied. Gains may be deferred in whole or in part until the sales satisfy the requirements of gain recognition on sales of real estate under SFAS No. 66 *Accounting for Sales of Real Estate*. In accordance with SFAS No. 144, gains on facilities sold to unconsolidated joint ventures in which we maintain an ownership interest are included in income from continuing operations. The portion of the gain representing our retained ownership interest in the joint venture is deferred and included in the caption Accounts payable and accrued liabilities on our balance sheets, and the remaining gain is recognized and recorded under the caption Gain on sale of facilities to unconsolidated joint venture, net on our statements of operations. All other gains are included in discontinued operations.

Asset Impairment

We review our long-lived assets individually on a quarterly basis to determine if there are indicators of impairment in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS No. 142) and SFAS No. 144. Indicators may include, among others, the tenant s inability to make rent payments, operating losses or negative operating trends at the facility level, notification by a tenant that it will not renew its lease, a decision to dispose of an asset or adverse changes in the fair value of any of our properties. For operating assets, if indicators of impairment exist, we compare the future estimated undiscounted cash flows from the expected use of the property to its net book value to determine if impairment exists. If the sum of the future estimated undiscounted cash flows is higher than the current net book value, in accordance with SFAS Nos. 142 and 144, we conclude no impairment exists. If the sum of the future estimated undiscounted cash flows is lower than its current net book value, we recognize an impairment loss for the difference between the net book value of the asset and its estimated fair value. To the extent we decide to sell an asset, we recognize an impairment loss if the current net book value of the asset exceeds its fair value less selling costs. The above analyses require us to determine whether there are indicators of impairment for individual assets, to estimate the most likely stream of cash flows from operating assets and to determine the fair value of assets that are impaired or held for sale. If our assumptions, projections or estimates regarding an asset change in the future, we may have to record an impairment charge to reduce or further reduce the net book value of the asset.

Collectibility of Receivables

We evaluate the collectibility of our rent, mortgage loans and other receivables on a regular basis based on factors including, among others, payment history, the financial strength of the borrower and any guarantors, the value of the underlying collateral, the operations and operating trends of the underlying collateral, if any, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This

analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. We had reserves included in the caption Receivables, net of $2.7 million as of December 31, 2007 and $3.1 million as of December 31, 2006. If our assumptions or estimates regarding the collectibility of a receivable change in the future, we may have to record a reserve to reduce or further reduce the carrying value of the receivable.

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NATIONWIDE HEALTH PROPERTIES, INC.

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Accounting for Stock-Based Compensation

In 1999, we adopted the accounting provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* (SFAS No. 123). In 2005, we adopted SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS No. 123R). SFAS No. 123 and SFAS No. 123R established a fair value based method of accounting for stock-based compensation. Accounting for stock-based compensation under SFAS No. 123 and SFAS No. 123R requires the fair value of stock-based compensation awards to be amortized as an expense over the vesting period and requires any dividend equivalents earned to be treated as dividends for financial reporting purposes. Stock-based compensation awards are valued at the fair value on the date of grant and amortized as an expense over the vesting period. Net income reflects stock-based compensation expense of $4.7 million in 2007, $1.9 million in 2006 and $2.0 million in 2005.

Land, Buildings and Improvements

We record properties at cost and use the straight-line method of depreciation for buildings and improvements over their estimated remaining useful lives of up to 40 years, generally 20 to 40 years depending on factors including building type, age, quality and location. We review and adjust useful lives periodically. Depreciation expense from continuing operations was $91.7 million in 2007, $64.7 million in 2006 and $44.1 million in 2005. We allocate the purchase price of a property based on management s estimate of its fair value among land, building and, if applicable, equipment as if the property were vacant. Historically, we have generally acquired properties and simultaneously entered into a new market rate lease for the entire property with one tenant.

A significant portion of the cost of each property is allocated to buildings. For our triple-net leased buildings, this amount generally approximates 90%. For medical office buildings that are not leased under a single triple-net lease, this percentage may be substantially lower as we allocate purchase prices in accordance with SFAS No. 141 *Business Combinations* (SFAS No. 141), which generally results in substantial allocations to assets such as lease-up intangible assets, above/below market tenant and ground lease intangible assets and in-place lease intangible assets, collectively Intangible lease assets , included in the caption Other assets on our balance sheets. We amortize intangible lease assets over the remaining lease terms of the respective leases to real estate amortization expense or operating rent, as appropriate.

Cash and Cash Equivalents

Cash in excess of daily requirements is invested in money market mutual funds, commercial paper and repurchase agreements with original maturities of three months or less. Such investments are deemed to be cash equivalents for purposes of presentation in the financial statements.

Capitalization of Interest

We capitalize interest on facilities under construction. The capitalization rates used are based on rates for our unsecured notes and bank line of credit, as applicable. There was no capitalized interest in 2007, 2006 or 2005.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents approximates fair value because of the short maturities of these instruments. The fair values of mortgage loans receivable are based upon the estimates of management and

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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on rates currently prevailing for comparable loans. The fair value of long-term debt is estimated based on discounting future cash flows utilizing current rates offered to us for debt of a similar type and remaining maturity.

The table below details the fair values and book values for mortgage loans receivable and the components of long-term debt at December 31, 2007.

	Book Value	Fair Value
	(In thousands)	
Mortgage loans receivable	$ 121,694	$ 151,006
Credit facility	$ 41,000	$ 41,000
Notes and bonds payable	$ 340,150	$ 340,731
Senior notes due 2008 2038	$ 1,166,500	$ 914,059

Derivatives

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. We endeavor to limit these risks by following established risk management policies, procedures and strategies, including, on occasion, the use of financial instruments. We do not use financial instruments for trading or speculative purposes.

Financial instruments are recorded on the balance sheet as assets or liabilities based on each instrument s fair value. Changes in the fair value of financial instruments are recognized currently in earnings, unless the financial instrument meets the criteria for hedge accounting contained in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted (SFAS No. 133). If the financial instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the financial instrument are recorded in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A contract that is designated as a hedge of an anticipated transaction which is no longer likely to occur is immediately recognized in earnings.

Segment Reporting

We report our consolidated financial statements in accordance with SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information*. We operate in two segments based on our investment and leasing activities: triple-net leases and multi-tenant leases (see Note 24).

Impact of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value for assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective January 1, 2008 for financial assets or liabilities or nonfinancial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 is effective January 1, 2009 for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. SFAS No. 157 is not expected to have a material impact on our results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158 *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires recognition of the funded status of such plans as an asset or liability, with

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December 31, 2007

changes in the funded status recognized through comprehensive income in the year in which they occur. These provisions of SFAS No. 158 were effective December 31, 2006 and were adopted at that time. Additionally, SFAS No. 158 requires measurement of a plan s assets and its obligations at the end of the employer s fiscal year, effective December 31, 2008. SFAS No. 158 has not had, and is not expected to have, a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective January 1, 2008. The adoption of SFAS No. 159 is not expected to have a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51* (SFAS No. 160). SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and to the noncontrolling interest. SFAS No. 160 is effective January 1, 2009. We are currently evaluating the impact the adoption of SFAS No. 160 will have on our results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141R). SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. Under SFAS No. 141R, certain transaction costs that have historically been capitalized as acquisition costs will be expensed. SFAS No. 141R is effective for business combinations completed on or after January 1, 2009. We are currently evaluating the impact the adoption of SFAS No. 141R will have on our results of operations and financial position.

3. Real Estate Properties

At December 31, 2007, we had direct ownership of:

260 assisted and independent living facilities;

162 skilled nursing facilities;

10 continuing care retirement communities;

7 specialty hospitals;

6 triple-net medical office buildings; and

51 multi-tenant medical office buildings, 43 of which are operated by consolidated joint ventures (see Note 5).

We lease our owned senior housing and long-term care facilities and certain medical office buildings to single tenants under triple-net , and in most cases, master leases that are accounted for as operating leases.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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These leases generally have an initial term of up to 21 years and generally have two or more multiple-year renewal options. As of December 31, 2007, approximately 85% of these facilities were leased under master leases. In addition, the majority of these leases contain cross-collateralization and cross-default provisions tied to other leases with the same tenant, as well as grouped lease renewals and grouped purchase options. As of December 31, 2007, leases covering 408 facilities were backed by security deposits consisting of irrevocable letters of credit or cash totaling $72.2 million. Under terms of the leases, the tenant is responsible for all maintenance, repairs, taxes, insurance and capital expenditures on the leased properties. As of December 31, 2007, leases covering 307 facilities contained provisions for property tax impounds, and leases covering 205 facilities contained provisions for capital expenditure impounds. We generally lease medical office buildings to multiple tenants under separate non triple-net leases where we are responsible for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants), however, some of the medical office buildings may be subject to triple-net leases. No individual property owned by us is material to us as a whole.

Future minimum rentals on non-cancelable leases, including medical office building leases, as of December 31, 2007 are as follows:

Year	Rentals (In thousands)	Year	Rentals (In thousands)
2008	$ 312,933	2013	$ 237,602
2009	303,898	2014	227,038
2010	290,830	2015	214,735
2011	273,518	2016	188,607
2012	260,017	2017	173,231
		Thereafter	611,144

During 2007, we acquired 40 assisted and independent living facilities, 29 skilled nursing facilities, three continuing care retirement communities and six triple-net medical office buildings in 18 separate transactions for an aggregate investment of $436.9 million, including the assumption of $38.1 million of mortgage financing and $7.3 million of security deposits and other holdback items. We also acquired eight multi-tenant medical office buildings in two separate transactions for an aggregate investment of $132.0 million, including the assumption of $8.4 million of mortgage financing and $0.1 million of security deposits and other holdback items. The aggregate investment of $568.9 million was allocated $545.2 million to real estate with the remaining $23.7 million to other assets and liabilities. We also acquired 22 multi-tenant medical office buildings through our consolidated joint ventures (see Note 5).

During 2007, we acquired title to one continuing care retirement community previously securing an impaired mortgage loan with a balance of $7.7 million which approximated our estimate of its fair value (see Note 4). In connection with acquiring title to the facility, we entered into a lease for this facility with the former borrower.

During 2007, we also funded $22.2 million in expansions, construction and capital improvements at certain triple-net leased facilities in accordance with existing lease provisions. Such expansions, construction and capital improvements generally result in an increase in the minimum rents earned by us on these facilities either at the time of funding or upon completion of the project. At December 31, 2007, we had committed to fund additional expansions, construction and capital improvements of approximately $144.9 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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During 2007, we sold 14 assisted and independent living facilities, four skilled nursing facilities and one continuing care retirement community in four separate transactions to the unconsolidated joint venture we have with a state pension fund investor for $226.7 million from which we received net cash proceeds of $161.5 million ($31.3 million representing our retained ownership interest in the joint venture, and $33.9 million representing debt and other liabilities assumed by the joint venture). The related leases were transferred to the joint venture. The sales resulted in a gain of $61.4 million, of which $46.0 million is included in gain on sale of facilities to unconsolidated joint venture in continuing operations ($15.4 million representing that portion of the gain attributable to our retained ownership interest in the joint venture, which was deferred).

During 2007, we sold seven skilled nursing facilities and one independent and assisted living facility to the tenants of the facilities pursuant to purchase options, none of which were previously transferred to assets held for sale, for net cash proceeds of $43.2 million. In connection with the sale of one of the skilled nursing facilities, we transferred one mortgage with a balance of $4.7 million to the tenant of the facility. We sold one skilled nursing facility to the tenant of the facility for net cash proceeds of $1.1 million. The sales resulted in a total gain of $11.4 million that is included in gain on sale of facilities in discontinued operations.

During 2007, we provided one mortgage loan for $14.1 million related to the sale of three assisted and independent living facilities to the former tenant, partially offset by a deferred gain of $4.1 million that will be recognized in proportion to principal payments received.

During 2007, we sold 36 skilled nursing facilities leased to Complete Care Services, Inc. for net cash proceeds of $124.7 million. This transaction resulted in a gain of $60.1 million that is included in gain on sale of facilities in discontinued operations.

During 2006, we acquired 64 assisted and independent living facilities and 20 skilled nursing facilities in 16 separate transactions for an aggregate investment of $938.9 million, including the assumption of $128.1 million of mortgage financing.

During 2006, we also funded $14.4 million in expansions, construction and capital improvements at certain triple-net leased facilities in accordance with existing lease provisions.

During 2006, we sold nine skilled nursing facilities and three assisted and independent living facilities to the tenants of the facilities pursuant to purchase options, none of which were previously transferred to assets held for sale, for net cash proceeds of $45.9 million. We provided two mortgage loans related to the sales of three facilities to the former tenants aggregating $8.1 million, partially offset by deferred gains of $4.6 million that will be recognized in proportion to principal payments received. The other sales resulted in a total gain of $17.3 million that is included in gain on sale of facilities in discontinued operations. During 2006, we transferred five buildings to assets held for sale which were sold during 2007.

During 2006, we sold 28 assisted and independent living facilities to Brookdale Senior Living, Inc. (Brookdale) for net cash proceeds of $147.1 million. These facilities were previously leased to Brookdale. The proceeds from this transaction were used to fund acquisitions. This transaction resulted in a recognized gain of $77.1 million that is included in gain on sale of facilities in discontinued operations.

During 2006, Brookdale acquired American Senior Living L.P., which previously leased ten assisted and independent living facilities from us. Terms of the lease for five of the facilities provided for purchase options exercisable on July 1, 2008. We sold these five facilities to Brookdale for $33.0 million and provided a mortgage loan for that amount. This transaction resulted in a deferred gain of $4.7 million that will be recognized in proportion to principal payments received.

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During 2006, Brookdale acquired American Retirement Corporation, which previously leased 16 assisted and independent living facilities from us under three leases. As a result of this transaction, Brookdale assumed the related leases, two of which expire on June 30, 2012 and a third that expires on June 30, 2014.

The following table lists our owned real estate properties as of December 31, 2007:

Type	Number of States	Number of Facilities	Land	Buildings and Improvements	Total Investment	Accumulated Depreciation	Notes and Bonds Payable
			(Dollar amounts in thousands)				
Assisted and independent living facilities	38	260	$ 172,190	$ 1,679,860	$ 1,852,050	$ 197,205	$ 253,970
Skilled nursing facilities	30	162	80,238	764,901	845,139	176,955	14,880
Continuing care retirement communities	8	10	8,612	115,488	124,100	19,662	
Specialty hospitals	3	7	6,110	63,302	69,412	12,997	
Medical office buildings	13	57	33,950	273,325	307,275	4,046	71,300
Total	43	496	$ 301,100	$ 2,896,876	$ 3,197,976	$ 410,865	$ 340,150

4. Mortgage Loans Receivable

During 2007, we funded two mortgage loans secured by four skilled nursing facilities and three assisted and independent living facilities we sold to the former tenants for a total of $32.9 million ($18.9 million net of a deferred gain of $14.0 million) and acquired four mortgage loans secured by six assisted and independent living facilities and four skilled nursing facilities totaling $19.1 million (including a premium of $0.4 million). One of the four mortgage loans acquired was prepaid in July 2007 in the amount of $4.7 million. In connection with the acquisition of the four mortgage loans, we acquired $27.7 million of loans secured by leasehold mortgages and other items which are included in the caption Other assets on our balance sheets. We also funded $1.3 million on existing mortgage loans.

During 2007, one mortgage loan secured by one skilled nursing facility was prepaid in the amount of $8.3 million. Concurrent with the loan payoff, the unconsolidated joint venture we have with a state pension fund investor (see Note 6) acquired title to the facility from the former borrower and entered into a lease for this facility with the former borrower.

During 2007, we acquired title to one continuing care retirement community securing an impaired mortgage loan with a balance of $7.7 million which approximated our estimate of fair value of the facility. In connection with acquiring title to the facility, we entered into a lease for this facility with the former borrower.

At December 31, 2007, we had an investment in one impaired loan with a balance of $2.9 million (net of a discount of $4.1 million). During 2007, the loan had an average balance of $2.9 million (net of an average discount of $4.1 million), and we recognized and received cash payments for interest income totaling $0.6

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million. During 2007, the borrower under the loan declared bankruptcy. We believe the net balance of the loan is fully recoverable, and based on the facility s performance, we expect to recover the full $7.0 million gross balance.

During 2006, we funded one mortgage loan secured by five assisted and independent living facilities to Brookdale (see Note 3) for $33.0 million ($28.3 million net of deferred gain of $4.7 million), two mortgage loans secured by three skilled nursing facilities we sold to the former tenants with principal balances totaling $8.1 million ($3.6 million net of deferred gains totaling $4.5 million), one mortgage loan secured by a skilled nursing facility for $3.3 million and one mortgage loan secured by a land parcel for $0.7 million. In addition, three mortgage loans were prepaid aggregating $17.4 million.

At December 31, 2006, we had an investment in one impaired loan with a balance of $10.6 million. During 2006, the average balance was $10.6 million, and we recognized and received cash payments for interest income totaling $0.7 million. We acquired title to the facility securing this loan during 2007 after $2.9 million of the loan principal was repaid by the borrower.

We recognize interest income on impaired loans to the extent our estimate of the fair value of the collateral is sufficient to support the balance of the loans, other receivables and all related accrued interest. Once the total of the loans, other receivables and all related accrued interest is equal to our estimate of the fair value of the collateral, we recognize interest income on a cash basis. We provide reserves against impaired loans to the extent our total investment exceeds our estimate of the fair value of the loan collateral.

At December 31, 2007, we held 17 mortgage loans receivable secured by 19 skilled nursing facilities, 11 assisted and independent living facilities and one land parcel. In addition, we held one mortgage loan receivable secured by the skilled nursing portion of a continuing care retirement community that for facility count purposes is accounted for in the real estate properties above as a continuing care retirement community and therefore is not counted as a separate facility here. At December 31, 2007, the mortgage loans receivable had an aggregate principal balance of $144.9 million and are reflected in our consolidated balance sheets net of aggregate deferred gains and discounts totaling $23.2 million, with individual outstanding balances ranging from $0.7 million to $33.0 million and maturities ranging from 2008 to 2024. The principal balances of mortgage loans receivable as of December 31, 2007 mature as follows:

Year	Maturities (In thousands)	Year	Maturities (In thousands)
2008	$ 39,240	2011	$ 657
2009	38,449	2012	714
2010	14,744	Thereafter	51,115

The following table lists our mortgage loans receivable at December 31, 2007:

Location of Facilities	Number of Facilities	Interest Rate	Final Maturity Date	Estimated Balloon Payment(1)	Original Face Amount of Mortgages	Carrying Amount of Mortgages
			(Dollar amounts in thousands)			
Skilled Nursing Facilities:						
Arkansas	2	10.00%	12/08	$ 4,196	$ 5,500	$ 4,328
California	4	12.00%	01/08	18,786	18,786	8,885
Connecticut	1	9.60%	05/16	7,000	7,000	2,944
Florida	1	10.00%	05/08	4,850	4,850	4,704

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Location of Facilities	Number of Facilities	Interest Rate	Final Maturity Date	Estimated Balloon Payment(1)	Original Face Amount of Mortgages	Carrying Amount of Mortgages
			(Dollar amounts in thousands)			
Florida	1	10.92%	05/17	4,524	5,409	5,402
Illinois	1	9.00%	01/24		9,500	7,773
Kansas	2	11.58%	01/08	1,148	1,148	631
Louisiana	1	10.89%	04/15	2,407	3,850	3,342
Massachusetts	1	9.80%	07/16	2,186	3,265	3,111
Michigan	4	12.38%	06/09	4,887	4,887	5,059
Pennsylvania	1	10.20%	06/17	9,903	9,903	9,903
Subtotals	19			59,887	74,098	56,082
Assisted and Independent Living Facilities:						
Arizona	1	12.41%	01/08	4,379	4,438	4,392
California	1	10.12%	01/08	4,523	4,597	4,523
Delaware	1	10.00%	06/09	5,280	5,280	4,533
Florida	1	9.00%	11/10	6,220	6,220	4,415
Louisiana	1	10.00%	06/09	7,260	7,260	6,232
Massachusetts	1	9.52%	06/23	8,500	8,500	8,500
Ohio	1	10.00%	06/09	6,270	6,270	5,382
Tennessee	1	10.00%	06/09	5,280	5,280	4,533
Tennessee	1	9.00%	11/10	3,252	3,252	2,308
Virginia	1	10.00%	06/09	8,910	8,910	7,649
Virginia	1	9.00%	11/10	4,665	4,665	3,311
Subtotals	11			64,539	64,672	55,778
Continuing Care Retirement Community:						
Florida		7.52%	11/13	8,647	9,200	9,142
Subtotals				8,647	9,200	9,142
Land Parcel:						
Texas		9.00%	01/08	692	692	692
Subtotals				692	692	692
Total	30			$ 133,765	$ 148,662	$ 121,694

(1) Most mortgage loans receivable require monthly principal and interest payments at level amounts over life to maturity. Certain mortgage loans require monthly interest only payments until maturity. Some mortgage loans receivable have interest rates which periodically adjust, but cannot decrease, which results in varying principal and interest payments over life to maturity, in which case the balloon payments reflected are an estimate. Most mortgage loans receivable require a prepayment penalty based on a percentage of principal outstanding or a penalty based upon a calculation maintaining the yield we would have earned if prepayment had not occurred.

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NATIONWIDE HEALTH PROPERTIES, INC.

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The following table summarizes the changes in mortgage loans receivable during 2007 and 2006:

	2007	2006
	(In thousands)	
Balance at January 1	$ 106,929	$ 87,553
New mortgage loans	51,596	45,105
Additional fundings on existing mortgage loans	1,288	1,858
Deferred gains	(14,005)	(9,244)
Premium, net of amortization	172	
Collection of principal	(24,286)	(18,343)
Balance at December 31	$ 121,694	$ 106,929

5. Medical Office Building Joint Ventures

NHP/Broe, LLC

In December 2005, we entered into a joint venture with The Broe Companies (Broe) called NHP/Broe, LLC (Broe I) to invest in multi-tenant medical office buildings. We hold a 90% equity interest in the venture and Broe holds a 10% equity interest. Broe is the managing member of Broe I, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies. No investments were made by this joint venture prior to 2006.

For the first 36 months of the Broe I joint venture, we will receive 100% of the cash distributions from the joint venture until we have received a specified return, at which point Broe will receive 100% of the cash distributions until it has received a specified return. If we have not received the specified return after the first 36 months, distributions will go to the members in accordance with their ownership percentages until such time as each member earns the specified return. When the specified return is achieved, Broe will receive an increasing percentage of the cash distributions from the joint venture.

During 2006, the Broe I joint venture acquired 21 multi-tenant medical office buildings in six states. The purchase price totaled $56.0 million, of which $38.5 million was originally allocated to real estate, $14.5 million was allocated to in-place lease related assets and $3.0 million was allocated to other assets and liabilities. The joint venture was originally financed with a bridge loan from us of $30.7 million, capital contributions from us of $17.0 million, capital contributions from Broe of $1.9 million and assumed mortgages on three facilities totaling $6.4 million. The bridge loan from us was replaced on April 13, 2006 by third party mortgage financing in the amount of $31.5 million (funding up to

$34.0 million available under the financing agreement).

During 2007, the Broe I joint venture funded $0.9 million in capital improvements at certain facilities in accordance with existing lease provisions.

During 2007, the Broe I joint venture sold two of five buildings within one medical office building campus for $0.9 million. The sale resulted in a gain of $0.4 million, of which $0.3 million ($0.1 million representing Broe s share of the gain) is included in gain on sale of facilities in discontinued operations.

During 2007, cash distributions from the Broe I joint venture of $0.5 million and $0.1 million were made to us and to Broe, respectively. During 2006, cash distributions from the Broe I joint venture of $1.4 million and 0.2 million were made to us and to Broe, respectively. All intercompany balances with the Broe I joint venture have been eliminated for purposes of our consolidated financial statements.

NATIONWIDE HEALTH PROPERTIES, INC.

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December 31, 2007

NHP/Broe II, LLC

In February 2007, we entered into a second joint venture with Broe called NHP/Broe II, LLC (Broe II) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and Broe holds a 5% equity interest. Broe is the managing member of Broe II, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies.

Cash distributions from the Broe II joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, Broe will receive an increasing percentage of the cash distributions from the joint venture.

During 2007, the Broe II joint venture acquired 16 multi-tenant medical office buildings located in four states. The purchase price totaled $94.0 million, of which $60.2 million was allocated to real estate with the remaining $33.8 million allocated to other assets and liabilities. The acquisitions were originally financed with a bridge loan from us of $5.7 million and capital contributions of $83.9 million and $4.4 million, from us and Broe, respectively. The bridge loan from us was replaced on August 1, 2007 by third party mortgage financing in the amount of $5.2 million (funding up to $5.9 million is available under the financing agreements). The Broe II joint venture subsequently placed an additional $4.0 million of mortgage financing on a portion of the portfolio resulting in cash distributions reducing net capital contributions to approximately $80.1 million and $4.2 million for us and Broe, respectively.

During 2007, the Broe II joint venture also funded $0.4 million in capital improvements at certain facilities in accordance with existing lease provisions.

During 2007, cash distributions from the Broe II joint venture of $0.8 million and $44,000 were made to us and to Broe, respectively. All intercompany balances with the Broe II joint venture have been eliminated for purposes of our consolidated financial statements.

McShane/NHP JV, LLC

In December 2007, we entered into a joint venture with McShane Medical Office Properties, Inc. (McShane) called McShane/NHP JV, LLC (McShane/NHP) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and McShane holds a 5% equity interest. McShane is the managing member of McShane/NHP, but we consolidate the joint venture in our consolidated financial statements. The

accounting policies of the joint venture are consistent with our accounting policies.

Cash distributions from the McShane/NHP joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, McShane will receive an increasing percentage of the cash distributions from the joint venture.

During 2007, the McShane/NHP joint venture acquired six multi-tenant medical office buildings located in one state. The purchase price totaled $46.5 million, of which $42.6 million was allocated to real estate with the remaining $3.9 million allocated to other assets and liabilities. The acquisitions were originally financed with a bridge loan from us of $31.2 million and capital contributions of $14.5 million and $0.8 million, from us and McShane, respectively.

No cash distributions were made from the McShane/NHP joint venture during 2007. All intercompany balances with the McShane/NHP joint venture have been eliminated for purposes of our consolidated financial statements.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

6. Investment in Unconsolidated Joint Venture

In January 2007, we entered into a joint venture with a state pension fund investor. The purpose of the joint venture is to acquire and develop assisted living, independent living and skilled nursing facilities. We manage and own 25% of the joint venture, which will fund its investments with approximately 40% equity contributions and 60% debt. The original approved investment target was $475 million, but we exceeded that amount in 2007, and the total potential investment amount has been increased to $975 million. The financial statements of the joint venture are not consolidated in our financial statements as our joint venture partner has substantive participating rights, and our investment is accounted for using the equity method.

During 2007, the joint venture acquired 19 assisted and independent living facilities, 14 skilled nursing facilities and one continuing care retirement community located in nine states for approximately $531 million. The acquisitions were initially financed by the assumption of approximately $32 million of mortgage financing, approximately $182 million of new mortgage financing, capital contributions from our joint venture partner of approximately $238 million and capital contributions from us of approximately $79 million. The joint venture subsequently placed approximately $102 million of mortgage financing on portions of the portfolio resulting in cash distributions reducing net capital contributions to approximately $161 million and $54 million for our joint venture partner and us, respectively. Fourteen of the assisted and independent living facilities, four of the skilled nursing facilities and the continuing care retirement community with a total cost of approximately $227 million were acquired by the joint venture from us, and the related leases were transferred to the joint venture (see Note 3). In addition, the joint venture acquired title to one of the skilled nursing facilities, for which we previously provided a mortgage loan in the amount of $8.3 million, from the former borrower concurrently with the repayment of such loan to us by the former borrower (see Note 4).

Cash distributions from the joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, we will receive an increasing percentage of the cash distributions from the joint venture. In addition to our share of the income, we receive a management fee calculated as a percentage of the equity investment in the joint venture. This fee is included in our income from unconsolidated joint venture and in the general and administrative expenses on the joint venture s income statement. For the year ended December 31, 2007, we earned management fees of $1.5 million, and our share of the net income was $0.4 million.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

The unaudited condensed balance sheet and income statement for the joint venture below present its financial position as of December 31, 2007 and its results of operations for the year then ended.

BALANCE SHEET

	2007 (in thousands)
ASSETS	
Real estate properties:	
Land	$ 35,042
Building and improvements	496,188
	531,230
Less accumulated depreciation	(6,811)
	524,419
Cash and cash equivalents	3,689
Other assets	2,825
	$ 530,933
LIABILITIES AND EQUITY	
Notes and bonds payable	$ 316,935
Accounts payable and accrued liabilities	3,461
Equity:	
Capital contributions	216,078
Distributions	(7,302)
Cumulative net income	1,761
Total equity	210,537
	$ 530,933

INCOME STATEMENT

	2007 (in thousands)
Revenues:	
Rental income	$ 16,560
Interest and other income	110
	16,670
Expenses:	
Interest and amortization of deferred financing costs	6,379
Depreciation and amortization	6,811
General and administrative	1,719
	14,909
Net income	$ 1,761

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

7. Assets Held for Sale

During 2007, we sold six assets held for sale for a total of $18.8 million, and provided a mortgage loan for the same amount secured by four of the assets, partially offset by a deferred gain of $9.9 million that will be recognized in proportion to principal payments received. We also sold one land parcel for $0.5 million and 23 bed licenses for net cash proceeds of $0.3 million, resulting in gains of $0.1 million and $0.1 million, respectively, which are included in gain on sale of facilities in discontinued operations.

During 2006, we transferred five buildings to assets held for sale which were sold during 2007. We also sold five assets held for sale for $11.0 million resulting in a gain of $2.4 million included in discontinued operations. During 2006, we recognized impairment charges totaling $0.1 million related to two assets held for sale.

At December 31, 2007, no assets were classified as held for sale.

8. Other Assets

At December 31, 2007 and 2006, other assets consisted of:

	2007	2006
	(In thousands)	
Other receivables, net of reserves of $4.6 million and $4.9 million at December 31, 2007 and 2006, respectively	$ 34,379	$ 26,155
Straight-line rent receivables, net	10,727	7,756
Deferred finance costs	17,927	17,975
Capitalized lease and loan origination costs	2,307	4,022
Intangible lease assets	58,481	11,312
Investments and restricted funds	18,024	18,068
Prepaid ground lease	10,431	
Other	7,420	4,045
	$ 159,696	$ 89,333

Investments are recorded at fair value using market prices.

Intangible lease assets include items such as lease-up intangible assets, above/below market tenant and ground lease intangible assets and in-place lease intangible assets. At December 31, 2007 and 2006, the gross balance of intangible lease assets was $66.3 million and $14.8 million, respectively. At December 31, 2007 and 2006, the accumulated amortization of intangible lease assets was $7.8 million and $3.5 million, respectively. For the years ended December 31, 2007 and 2006, operating rent includes $0.1 million and ($0.2) million from the amortization of above/below market lease intangible assets, respectively. For the years ended December 31, 2007 and 2006, expenses include $4.8 million and $3.2 million from the amortization of other intangible lease assets, respectively. As of December 31, 2007, the weighted average amortization period of intangible lease assets was approximately 19 years.

The future estimated aggregate net amortization expense related to intangible lease assets is as follows:

Year	**Net Amortization Expense (In thousands)**	**Year**	**Net Amortization Expense (In thousands)**
2008	$ 8,166	2011	$ 7,766
2009	8,166	2012	7,240
2010	8,208	Thereafter	18,935

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

9. Credit Facility

We have a $700 million revolving senior unsecured credit facility maturing on December 15, 2010. The maturity date may be extended by one additional year at our discretion. At our option, borrowings under the Credit Facility bear interest at the prime rate (7.25% at December 31, 2007) or applicable LIBOR plus 0.85% (5.48% at December 31, 2007). We pay a facility fee of 0.15% per annum on the total commitment under the agreement. This facility replaced our prior $600 million revolving credit commitment maturing October 20, 2008 and the $100 million term credit commitment maturing October 20, 2010. At December 31, 2007, we had $41.0 million outstanding on our Credit Facility.

On May 15, 2006, in connection with the acquisition of Hearthstone Assisted Living, Inc., we entered into a $200 million credit agreement that matured on September 12, 2006. Accordingly, no amounts were outstanding at December 31, 2007 or December 31, 2006.

Our Credit Facility requires us to maintain, among other things, the financial covenants detailed below. As of December 31, 2007, we were in compliance with all of these covenants:

Covenant	Requirement	Actual
	(Dollar amounts in thousands)	
Minimum net asset value	$ 820,000	$ 2,865,130
Maximum total indebtedness to capitalization value	60%	36%
Minimum fixed charge coverage ratio	1.75	2.90
Maximum secured indebtedness ratio	30%	9%
Maximum unencumbered asset value ratio	60%	31%

Our Credit Facility allows us to exceed the 60% requirements, up to a maximum of 65%, on the maximum total indebtedness to capitalization value and maximum unencumbered asset value ratio for up to two consecutive fiscal quarters.

10. Senior Notes

On October 19, 2007, we issued $300 million of notes due February 1, 2013 at a fixed rate of 6.25% resulting in net proceeds of approximately $297 million. In August and September 2007, we entered into four six-month Treasury lock agreements totaling $250 million at a weighted average rate of 4.212% in order to hedge the expected interest payments associated with a portion of these notes. The Treasury lock agreements were settled in cash on October 17, 2007 for the present value of the difference between the locked Treasury rates and the unwind rate (equal to the then-prevailing Treasury rate less the forward premium or 4.364%). The prevailing Treasury rate exceeded the rates in the Treasury lock agreements, thus the counterparties to those agreements made payments to us of $1.6 million. The settlement amounts are being amortized over

the life of the debt as a yield reduction.

During 2007, we repaid $17.0 million of fixed rate notes with a weighted average rate of 7.31% at maturity and prepaid $4.0 million of fixed rate notes with a rate of 8.25%.

On July 14, 2006, we issued $350 million of notes due July 15, 2011 at a fixed rate of 6.5% resulting in net proceeds of approximately $347 million.

In June 2006, we entered into two $125 million, two-month Treasury lock agreements at rates of 4.9340% and 4.9625% in order to hedge the expected interest payments associated with a portion of the $350 million of notes. These Treasury lock agreements were settled in cash on July 11, 2006, concurrent with the pricing of the

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

$350 million of notes, for an amount equal to the present value of the difference between the locked Treasury rates and the unwind rate (equal to the then-prevailing Treasury rate less the forward premium or 5.0610%). The prevailing Treasury rate exceeded the rates in the Treasury lock agreements, thus the counterparty to those agreements made payments to us of $1.2 million. The settlement amounts are being amortized over the life of the debt as a yield reduction.

During 2006, we also repaid $32.7 million in aggregate principal amount of notes.

The aggregate principal amount of notes outstanding at December 31, 2007 was $1.2 billion. At December 31, 2007, the weighted average interest rate on the notes was 6.6% and the weighted average maturity was 7.4 years. The principal balances of the notes as of December 31, 2007 mature as follows:

Year	Maturities (In thousands)	Year	Maturities (In thousands)
2008	$ 10,000	2011	$ 350,000
2009	32,000	2012	96,000
2010		Thereafter	678,500(1)

(1) There are $55.0 million of notes due in 2037 which may be put back to us at their face amount at the option of the holder on October 1st of any of the following years: 2009, 2012, 2017, or 2027. There are $33.5 million of notes due in 2028 which may be put back to us at their face amount at the option of the holder on November 20th of any of the following years: 2008, 2013, 2018, or 2023. There are $40.0 million of notes due in 2038 which may be put back to us at their face amount at the option of the holder on July 7th of any of the following years: 2008, 2013, 2018, 2023, or 2028.

11. Notes and Bonds Payable

The aggregate principal amount of notes and bonds payable at December 31, 2007 was $340.1 million. Notes and bonds payable are due through the year 2037, at interest rates ranging from 3.8% to 8.8% and are secured by real estate properties with an aggregate net book value as of December 31, 2007 of $598.6 million. At December 31, 2007, the weighted average interest rate on the notes and bonds payable was 6.2% and the weighted average maturity was 8.3 years.

During 2007, we assumed mortgages as part of various acquisitions totaling $55.7 million. We repaid $0.6 million of secured debt at maturity. We transferred one mortgage with a balance of $4.7 million at a rate of 5.3% in connection with the sale of the related facility to the tenant of the facility pursuant to a purchase option. We prepaid three additional mortgages with a combined balance of $25.4 million with interest rates

ranging from 6.7% to 6.9%. In addition, six mortgages with a combined balance of $32.6 million with interest rates ranging from 5.5% to 9.6% were assumed by the unconsolidated joint venture we have with a state pension fund investor in connection with our sale of the related facilities to the unconsolidated joint venture (see Note 6).

The principal balances of the notes and bonds payable as of December 31, 2007 mature as follows (in thousands):

Year	**Maturities (In thousands)**	**Year**	**Maturities (In thousands)**
2008	$	2011	$ 5,343
2009	39,043	2012	41,902
2010	73,730	Thereafter	181,225

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NATIONWIDE HEALTH PROPERTIES, INC.

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December 31, 2007

12. Preferred Stock

Series A Cumulative Preferred Step-Up REIT Securities

During 1997, we sold 1,000,000 shares of 7.677% Series A Cumulative Preferred Step-Up REIT Securities (Series A Preferred Stock) with a liquidation preference of $100 per share. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and are payable quarterly in arrears, commencing December 31, 1997 at the rate of 7.677% per annum of the liquidation preference per share (equivalent to $7.677 per annum per share) through September 30, 2012 and at a rate of 9.677% of the liquidation preference per annum per share (equivalent to $9.677 per annum per share) thereafter. The Preferred Stock was not redeemable prior to September 30, 2007. On or after September 30, 2007, the Preferred Stock could be redeemed for cash at our option, in whole or in part, at a redemption price of $100 per share, plus accrued and unpaid dividends, if any, thereon.

During August 2005, we repurchased 99,515 shares of our Series A Preferred Stock, and on October 1, 2007, we redeemed the 900,485 remaining outstanding shares of our Series A Preferred Stock at a redemption price of $100 per share. Concurrent with the redemption, we paid the final dividend on the Series A Preferred Stock.

Series B Cumulative Convertible Preferred Stock

During 2004, we issued 1,064,500 shares of 7.75% Series B Cumulative Convertible Preferred Stock (Series B Preferred Stock) with a liquidation preference of $100 per share. Dividends on the Series B Preferred Stock are cumulative from the date of original issue and are payable quarterly in arrears, commencing September 30, 2004.

Except as required by Maryland law and our amended and restated articles of incorporation, the holders of the Series B Preferred Stock will have no voting rights unless dividends payable on the Series B Preferred Stock are in arrears for six or more quarterly periods (whether or not consecutive). In that event, the holders of the Series B Preferred Stock, voting as a single class with any other preference securities having similar voting rights, will be entitled at the next regular or special meeting of our stockholders to elect two directors and the number of directors that comprise our board will be increased by the number of directors so elected. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the Series B Preferred Stock has been paid in full.

Each share of Series B Preferred Stock was initially convertible into 4.3975 shares of our common stock at the option of the holder (equivalent to a conversion price of $22.74 per share). At December 31, 2007, each share of Series B Preferred Stock was convertible into 4.4316 shares of our common stock (equivalent to a conversion price of $22.57 per share). At December 31, 2007, if all of the Series B Preferred Stock were to convert, it would result in the issuance of approximately 4,717,000 common shares. The Series B Preferred Stock is convertible upon the occurrence of any of the following events:

Our common stock reaching a price equal to 125% of the conversion price (initially $28.43 per share, $28.21 at December 31, 2007) for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter;

The price per share of the Series B Preferred Stock falls below 98% of the product of the Conversion Rate and the average closing sale prices of our common stock for five consecutive trading days;

The credit ratings from Moody s Investors Service or Standard & Poor s Ratings Services fall more than two levels below the initial ratings of Ba1 and BB+, respectively;

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We are a party to a consolidation, merger, binding share exchange or sale of all or substantially all of our assets where our common stock would be converted into cash, securities or other property, or if a fundamental change occurs, as defined, a holder may convert the holder s shares of Series B Preferred Stock into common stock or the cash, securities or other property that the holder would have received if the holder had converted the holders Series B Preferred Stock prior to the transaction or fundamental change; or

The Series B Preferred Stock is called for redemption by us.

The Series B Preferred Stock was convertible from January 1, 2007 to September 30, 2007, and during that time, 50 shares were converted into 220 shares of common stock at a conversion price of $22.66 per share (equivalent to 4.4136 shares of common stock per share of Series B Preferred Stock). For at least 20 of the last 30 trading days of 2007, our common stock reached a price greater than or equal to 125% of the $22.57 conversion price at December 31, 2007. As such, the Series B Preferred Stock became convertible on January 1, 2008 and will remain convertible through March 31, 2008 at which time the same test will be performed to determine whether the Series B Preferred Stock will continue to be convertible.

We may redeem the Series B Preferred Stock after five years at the redemption price per share plus any accumulated and unpaid dividends. The redemption prices are as follows:

Redemption on or after	Price per Share
July 5, 2009	$ 103.875
July 1, 2010	$ 103.100
July 1, 2011	$ 102.325
July 1, 2012	$ 101.550
July 1, 2013	$ 100.775
July 1, 2014	$ 100.000

The conversion rate will be adjusted if:

We issue common stock as a dividend or distribution on shares of our common stock;

We effect a common stock share split or combination;

We issue rights, warrants, options or other securities to the holders of our common stock at a price less than the closing common stock price on the previous business day;

We distribute our stock, evidence of our indebtedness or other assets or property, excluding cash dividends or spin-offs;

We increase the effective dividend rate on our common stock; or

We make a tender offer or exchange offer for our common stock at a price higher than the closing price on the previous business day.

13. Common Stock

In each of 2006 and 2007, we entered into sales agreements with Cantor Fitzgerald & Co. (Cantor) to sell up to 10 million shares of our common stock from time to time through a controlled equity offering program. During 2007, we sold approximately 7,808,000 shares of common stock at a weighted average price of $31.52,

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

resulting in net proceeds of $242.9 million after sales fees. During 2006, we sold approximately 7,237,000 shares of common stock at a weighted average price of $25.45 resulting in net proceeds of approximately $180.4 million after sales fees.

We sponsor a dividend reinvestment and stock purchase plan that enables existing stockholders to purchase additional shares of common stock by automatically reinvesting all or part of the cash dividends paid on their shares of common stock. The plan also allows investors to acquire shares of our common stock, subject to certain limitations, including a maximum monthly investment of $10,000, at a discount ranging from 0% to 5%, determined by us from time to time in accordance with the plan. The discount during 2007 and 2006 was 2%. During 2007, we issued approximately 724,000 shares of common stock, at an average price of $30.20, resulting in net proceeds of approximately $21.8 million. During 2006, we issued approximately 674,000 shares of common stock, at an average price of $24.55, resulting in net proceeds of approximately $16.5 million.

On April 5, 2006, we closed on the sale of 5,850,000 shares of common stock (including the underwriters over-allotment option of 1,350,000 shares) at $21.50 per share ($20.54 net of the underwriters discounts). In addition, we entered into forward sale agreements with affiliates of certain underwriters relating to 4,500,000 shares of common stock. These agreements gave us the option of settling the 4,500,000 forward shares in shares of common stock or cash at any time during the twelve months following the closing date. We settled the contracts by issuing 4,500,000 shares on June 29, 2006 at a price of $20.37 per share (the $20.54 from the original sale as adjusted for interest earned and dividends paid from the forward sale date to the settlement date) to settle the forward sale agreements. The net proceeds from the sale of these shares of approximately $211.0 million, after underwriters discounts and expenses payable by us, were used to repay borrowings under our Credit Facility.

14. Stock Incentive Plan

Under the terms of a stock incentive plan (the Plan), we reserved for issuance 3,000,000 shares of common stock. At December 31, 2007, approximately 2,058,000 shares of common stock remain available for issuance under the plan, however, approximately 601,000 of those shares have been reserved for issuance related to restricted stock units, performance shares and stock appreciation rights outstanding at December 31, 2007. Under the Plan, as amended, we may issue stock options, restricted stock, dividend equivalents and stock appreciation rights. We began accounting for the stock based compensation under SFAS No. 123 during 1999 for options and restricted stock granted in 1999 and thereafter. In 2005, we adopted SFAS No. 123R (SFAS No. 123 was revised in 2004).

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NATIONWIDE HEALTH PROPERTIES, INC.

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December 31, 2007

Summaries of the status of stock options granted to officers, restricted stock granted to directors and restricted stock, restricted stock units, performance shares and stock appreciation rights granted to employees at December 31, 2007, 2006 and 2005 and changes during the years then ended are as follow:

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(Dollar amounts in thousands except per share amounts)					
Officer Stock Options:						
Outstanding at beginning of year	592,427	$ 18.86	687,307	$ 19.07	931,850	$ 18.99
Granted						
Exercised	(22,678)	20.51	(84,880)	19.73	(202,127)	18.05
Forfeited			(10,000)	25.75	(42,416)	18.97
Expired						
Outstanding at end of year	569,749	18.80	592,427	18.86	687,307	19.07
Exercisable at end of year	569,749	18.80	592,427	18.86	579,931	19.14
Weighted average fair value of options granted	$		$		$	
Intrinsic value of options outstanding	$ 7,161					
Intrinsic value of options exercisable	$ 7,161					
Intrinsic value of options exercised	$ 274		$ 427		$ 869	
Director Restricted Stock:						
Outstanding at beginning of year	47,000	$ 22.11	38,000	$ 19.19	32,000	$ 18.22
Awarded	21,000	33.63	21,000	22.87	14,000	21.66
Vested	(19,000)	21.88	(12,000)	14.20	(8,000)	19.60
Forfeited						
Outstanding at end of year	49,000	$ 25.39	47,000	$ 22.11	38,000	$ 19.19
Fair value of shares vested	$ 416		$ 170		$ 157	
Employee Restricted Stock:						

Outstanding at beginning of year	97,675	$ 22.38	61,094	$ 21.70		$
Awarded	6,282	32.46	57,553	22.87	73,791	21.69
Vested	(39,347)	22.26	(20,365)	21.70		
Forfeited			(607)	22.87	(12,697)	21.66
Outstanding at end of year	64,610	$ 23.43	97,675	$ 22.38	61,094	$ 21.70
Fair value of shares vested	$ 876		$ 442		$	
Employee Restricted Stock Units:						
Outstanding at beginning of year	406,182	$ 28.60		$		$
Awarded	66,075	32.54	403,728	28.60		
Dividend equivalents	25,206	30.31	2,454	28.97		
Vested	(242,885)	30.23				
Forfeited						
Outstanding at end of year	254,578	$ 28.23	406,182	$ 28.60		$
Fair value of units vested	$ 6,958		$		$	

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2007

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(Dollar amounts in thousands except per share amounts)					
Employee Performance Shares:						
Outstanding at beginning of year		$		$		$
Awarded	78,300	30.95				
Vested						
Forfeited						
Outstanding at end of year	78,300	$ 30.95		$		$