HEALTH CARE REIT INC /DE/
Form 10-Q
November 05, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2013

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________to __________

Commission File number 1-8923

HEALTH CARE REIT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**34-1096634**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4500 Dorr Street, Toledo, Ohio	**43615**
(Address of principal executive office)	(Zip Code)

(419) 247-2800

(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 31, 2013, the registrant had 288,670,688 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED BALANCE SHEETS

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(In thousands)

	September 30, 2013	December 31, 2012

	(Unaudited)	(Note)
Assets:		
Real estate investments:		
Real property owned:		
Land and land improvements	$ 1,869,234	$ 1,365,391
Buildings and improvements	20,387,577	15,635,127
Acquired lease intangibles	1,050,542	673,684
Real property held for sale, net of accumulated depreciation	2,141	245,213
Construction in progress	158,006	162,984
Gross real property owned	23,467,500	18,082,399
Less accumulated depreciation and amortization	(2,168,334)	(1,555,055)
Net real property owned	21,299,166	16,527,344
Real estate loans receivable	307,377	895,665
Net real estate investments	21,606,543	17,423,009
Other assets:		
Equity investments	475,574	438,936
Goodwill	68,321	68,321
Deferred loan expenses	68,569	66,327
Cash and cash equivalents	164,838	1,033,764
Restricted cash	80,890	107,657
Receivables and other assets	585,070	411,095
Total other assets	1,443,262	2,126,100
Total assets	$ 23,049,805	$ 19,549,109
Liabilities and equity		
Liabilities:		
Borrowings under unsecured line of credit arrangement	$ 847,670	$ 0
Senior unsecured notes	6,395,638	6,114,151
Secured debt	3,115,862	2,336,196
Capital lease obligations	84,069	81,552
Accrued expenses and other liabilities	660,441	462,099
Total liabilities	11,103,680	8,993,998
Redeemable noncontrolling interests	31,706	34,592
Equity:		
Preferred stock	1,022,917	1,022,917
Common stock	288,249	260,396
Capital in excess of par value	12,349,678	10,543,690
Treasury stock	(21,263)	(17,875)
Cumulative net income	2,301,869	2,184,819
Cumulative dividends	(4,363,376)	(3,694,579)
Accumulated other comprehensive income (loss)	(23,475)	(11,028)
Other equity	5,864	6,461
Total Health Care REIT, Inc. stockholders' equity	11,560,463	10,294,801
Noncontrolling interests	353,956	225,718
Total equity	11,914,419	10,520,519
Total liabilities and equity	$ 23,049,805	$ 19,549,109

NOTE: The consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(In thousands, except per share data)

	Three Months Ended	Nine Months Ended

	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues:				
Rental income	$ 311,731	$ 277,919	$ 909,659	$ 789,748
Resident fees and services	466,127	174,464	1,164,446	498,295
Interest income	7,629	8,111	24,325	24,131
Other income	1,443	1,339	3,168	4,505
Total revenues	786,930	461,833	2,101,598	1,316,679
Expenses:				
Interest expense	116,530	91,915	336,585	271,223
Property operating expenses	342,730	144,417	874,960	409,236
Depreciation and amortization	242,668	127,844	628,700	373,344
General and administrative	28,718	23,679	79,799	77,302
Transaction costs	23,591	8,264	117,707	42,535
Loss (gain) on derivatives, net	4,872	409	4,465	(1,712)
Loss (gain) on extinguishment of debt, net	(4,068)	215	(4,376)	791
Provision for loan losses	0	27,008	0	27,008
Total expenses	755,041	423,751	2,037,840	1,199,727
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	31,889	38,082	63,758	116,952
Income tax (expense) benefit	(3,077)	(836)	(7,055)	(3,754)
Income (loss) from unconsolidated entities	(331)	(739)	(3,529)	2,250
Income (loss) from continuing operations	28,481	36,507	53,174	115,448
Discontinued operations:				
Gain (loss) on sales of properties, net	4,707	12,827	57,202	46,046
Impairment of assets	0	(6,952)	0	(6,952)
Income (loss) from discontinued operations, net	417	11,124	2,212	33,294
Discontinued operations, net	5,124	16,999	59,414	72,388
Net income	33,605	53,506	112,588	187,836
LessPreferred stock dividends	16,602	16,602	49,805	52,527
LessPreferred stock redemption charge	0	0	0	6,242
LessNet income (loss) attributable to noncontrolling interests[1]	(3,688)	(365)	(4,462)	(2,241)
Net income (loss) attributable to common stockholders	$ 20,691	$ 37,269	$ 67,245	$ 131,308
Average number of common shares outstanding:				
Basic	286,020	224,391	273,148	212,592
Diluted	288,029	226,258	275,247	214,075
Earnings per share:				
Basic:				
Income (loss) from continuing operations attributable to common stockholders	$ 0.05	$ 0.09	$ 0.03	$ 0.28
Discontinued operations, net	0.02	0.08	0.22	0.34
Net income (loss) attributable to common stockholders*	$ 0.07	$ 0.17	$ 0.25	$ 0.62
Diluted:				
Income (loss) from continuing operations attributable to common stockholders	$ 0.05	$ 0.09	$ 0.03	$ 0.28
Discontinued operations, net	0.02	0.08	0.22	0.34
Net income (loss) attributable to common stockholders*	$ 0.07	$ 0.16	$ 0.24	$ 0.61

Dividends declared and paid per common share	$	0.765	$	0.74	$	2.295	$	2.22

* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(In thousands)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2013	2012	2013	2012
Net income	$ 33,605	$ 53,506	$ 112,588	$ 187,836
Other comprehensive income (loss):				
Unrecognized gain (loss) on equity investments	(260)	230	(346)	192
Change in net unrealized gains (losses) on cash flow hedges:				
Unrealized gain (loss)	473	414	1,416	1,138
Foreign currency translation gain (loss)	25,693	2,514	(18,164)	166
Total other comprehensive income (loss)	25,906	3,158	(17,094)	1,496
Total comprehensive income (loss)	59,511	56,664	95,494	189,332
Less: Total comprehensive income (loss) attributable to noncontrolling interests[1]	(3,881)	(365)	(9,109)	(2,241)
Total comprehensive income (loss) attributable to common stockholders	$ 63,392	$ 57,029	$ 104,603	$ 191,573

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(In thousands)

Nine Months Ended September 30, 2013

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	$ 1,022,917	$ 260,396	$ 10,543,690	$ (17,875)	$ 2,184,819	$ (3,694,579)	$ (11,028)	$ 6,461	$ 225,718	$ 10,520,519
Comprehensive income:										
Net income (loss)					117,050				(2,345)	114,705
Other comprehensive income							(12,447)		(4,647)	(17,094)
Total comprehensive income										97,611
Net change in noncontrolling interests		1,109	23,410						135,230	159,749
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		2,756	176,840	(3,388)				(1,448)		174,760
Proceeds from issuance of common stock		23,000	1,607,281							1,630,281
		988	(1,543)							(555)

Equity component of convertible debt										
Option compensation expense								851		851
Cash dividends paid:										
Common stock cash dividends						(618,992)				(618,992)
Preferred stock cash dividends						(49,805)				(49,805)
Balances at end of period	$ 1,022,917	$ 288,249	$ 12,349,678	$ (21,263)	$ 2,301,869	$ (4,363,376)	$ (23,475)	$ 5,864	$ 353,956	$ 11,914,419

Nine Months Ended September 30, 2012

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	$ 1,010,417	$ 192,299	$ 7,019,714	$ (13,535)	$ 1,893,806	$ (2,972,129)	$ (11,928)	$ 6,120	$ 153,883	$ 7,278,647
Comprehensive income:										
Net income (loss)					190,077				(1,272)	188,805
Other comprehensive income							1,496			1,496
Total comprehensive income										190,301
Net change in noncontrolling			(1,529)						13,767	12,238

interests								
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		1,784	102,238	(3,996)			(1,046)	98,980
Proceeds from issuance of common stock		64,400	3,383,008					3,447,408
Proceeds from issuance of preferred stock	287,500		(9,813)					277,687
Redemption of preferred stock	(275,000)		6,202		(6,242)			(275,040)
Equity component of convertible debt		1,039	2,237					3,276
Option compensation expense							2,371	2,371
Cash dividends paid:								
Common stock cash dividends						(460,936)		(460,936)
Preferred stock						(52,527)		(52,527)

cash dividends									
Balances at end of period	$ 1,022,917	$ 259,522	$ 10,502,057	$ (17,531)	$ 2,077,641	$ (3,485,592)	$ (10,432)	$ 7,445	$ 166,378	$ 10,522,405

See notes to unaudited consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(In thousands)

Nine Months Ended

	September 30, 2013	September 30, 2012
Operating activities:		
Net income	$ 112,588	$ 187,836
Adjustments to reconcile net income to		
net cash provided from (used in) operating activities:		
Depreciation and amortization	630,579	393,243
Other amortization expenses	6,662	11,702
Provision for loan losses	0	27,008
Impairment of assets	0	6,952
Stock-based compensation expense	16,650	16,229
Loss (gain) on derivatives, net	4,465	(1,712)
Loss (gain) on extinguishment of debt, net	(4,376)	791
Loss (income) from unconsolidated entities	3,529	(2,250)
Rental income in excess of cash received	(31,226)	(32,069)
Amortization related to above (below) market leases, net	313	767
Loss (gain) on sales of properties, net	(57,202)	(46,046)
Distributions by unconsolidated entities	0	3,920
Increase (decrease) in accrued expenses and other liabilities	9,646	16,417
Decrease (increase) in receivables and other assets	(65,721)	(19,318)
Net cash provided from (used in) operating activities	625,907	563,470
Investing activities:		
Investment in real property, net of cash acquired	(3,354,716)	(2,119,796)
Capitalized interest	(4,698)	(7,113)
Investment in real estate loans receivable	(77,336)	(35,894)
Other investments, net of payments	(16,589)	26,752
Principal collected on real estate loans receivable	85,555	16,577
Contributions to unconsolidated entities	(381,667)	(227,735)
Distributions by unconsolidated entities	31,699	12,592
Proceeds from (payments on) derivatives	60,909	4,435
Decrease (increase) in restricted cash	68,796	(69,809)
Proceeds from sales of real property	385,493	302,377
Net cash provided from (used in) investing activities	(3,202,554)	(2,097,614)
Financing activities:		
Net increase (decrease) under unsecured lines of credit arrangements	834,050	(610,000)
Proceeds from issuance of senior unsecured notes	497,862	842,323
Payments to extinguish senior unsecured notes	(217,615)	(370,524)
Net proceeds from the issuance of secured debt	85,140	145,713
Payments on secured debt	(575,373)	(272,399)
Net proceeds from the issuance of common stock	1,792,552	3,536,232
Net proceeds from the issuance of preferred stock	0	277,687
Redemption of preferred stock	0	(275,000)
Decrease (increase) in deferred loan expenses	(12,398)	(5,119)
Contributions by noncontrolling interests[1]	5,350	12,106

Distributions to noncontrolling interests(1)		(22,502)		(15,283)
Acquisitions of noncontrolling interests		(23,247)		0
Cash distributions to stockholders		(668,797)		(513,463)
Other financing activities		(1,710)		641
Net cash provided from (used in) financing activities		1,693,312		2,752,914
Effect of foreign currency translation on cash and cash equivalents		14,409		0
Increase (decrease) in cash and cash equivalents		(868,926)		1,218,770
Cash and cash equivalents at beginning of period		1,033,764		163,482
Cash and cash equivalents at end of period	$	164,838	$	1,382,252
Supplemental cash flow information:				
Interest paid	$	342,739	$	275,246
Income taxes paid		5,146		3,012

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Health Care REIT, Inc., an S&P 500 company with headquarters in Toledo, Ohio, is an equity real estate investment trust ("REIT") that invests in seniors housing and health care real estate. Our full service platform offers property management and development services to our customers. As of September 30, 2013, our diversified portfolio consisted of 1,197 properties in 46 states, the United Kingdom, and Canada. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

2. Accounting Policies and Related Matters

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2013 are not necessarily an indication of the results that may be expected for the year ending December 31, 2013. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by our Current Report on Form 8-K filed on August 6, 2013.

New Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income by component and by the respective line items of net income. The amendment to authoritative guidance associated with comprehensive income was effective for us on January 1, 2013. The adoption of this guidance did not have a material impact on our unaudited consolidated financial statements.

3. Real Property Acquisitions and Development

The total purchase price for all properties acquired has been allocated to the tangible and identifiable intangible assets, liabilities and noncontrolling interests based upon their respective fair values in accordance with our accounting policies. The results of operations for these acquisitions have been included in our consolidated results of operations since the date of acquisition and are a component of the appropriate segments. Transaction costs primarily represent costs incurred with property acquisitions, including due diligence costs, fees for legal and valuation services and termination of pre-existing relationships computed based on the fair value of the assets acquired, lease termination fees and other acquisition-related costs.

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Seniors Housing Triple-net Activity

	Nine Months Ended	
(In thousands)	September 30, 2013(1)	September 30, 2012
Land and land improvements	$ 56,665	$ 79,325
Buildings and improvements	211,903	935,036
Total assets acquired	268,568	1,014,361
Secured debt	-	(86,186)
Accrued expenses and other liabilities	-	(3,340)
Total liabilities assumed	-	(89,526)
Capital in excess of par	-	1,024
Noncontrolling interests	-	(16,826)
Non-cash acquisition related activity	-	(310)
Cash disbursed for acquisitions	268,568	908,723
Construction in progress additions	103,951	131,579
Less: Capitalized interest	(3,337)	(4,228)
Cash disbursed for construction in progress	100,614	127,351
Capital improvements to existing properties	27,819	48,450
Total cash invested in real property, net of cash acquired	$ 397,001	$ 1,084,524

(1) Includes acquisitions with an aggregate purchase price of $268,568,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

Seniors Housing Operating Activity

Acquisitions of seniors housing operating properties are structured under RIDEA, which is described in Note 18. This structure results in the inclusion of all resident revenues and related property operating expenses from the operation of these qualified health care properties in our consolidated statements of comprehensive income. Certain of our subsidiaries' functional currencies are the local currencies of their respective countries. See Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by our Current Report on Form 8-K filed on August 6, 2013, for information regarding our foreign currency policies.

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended	
(In thousands)	September 30, 2013[1]	September 30, 2012
Land and land improvements	$ 437,046	$ 46,391
Building and improvements	4,214,254	450,255
Acquired lease intangibles	377,929	39,875
Restricted cash	41,524	-
Receivables and other assets	81,546	2,247
Total assets acquired[2]	5,152,299	538,768
Secured debt	(1,261,093)	(8,684)
Accrued expenses and other liabilities	(86,412)	(5,480)
Total liabilities assumed	(1,347,505)	(14,164)
Noncontrolling interests	(230,441)	(2,054)
Non-cash acquisition related activity[3]	(856,103)	-
Cash disbursed for acquisitions	2,718,250	522,550
Construction in progress additions	1,521	-
Less: Capitalized interest	(18)	-
Cash disbursed for construction in progress	1,503	-
Capital improvements to existing properties	36,813	13,325
Total cash invested in real property, net of cash acquired	$ 2,756,566	$ 535,875

(1) Includes acquisitions with an aggregate purchase price of $5,152,299,000 for which the allocation of the purchase price consideration is preliminary and subject to change.
(2) Excludes $87,406,000 and $4,369,000 of cash acquired during the nine months ended September 30, 2013 and 2012, respectively.
(3) Represents Sunrise loan and noncontrolling interests acquisitions.

Sunrise Merger

In August 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sunrise Senior Living, Inc. ("Sunrise"), pursuant to which we agreed to acquire Sunrise in an all-cash merger (the "Merger") in which Sunrise stockholders would receive $14.50 in cash for each share of Sunrise common stock. On January 9, 2013, we completed our acquisition of the Sunrise property portfolio. The Sunrise Merger advances our strategic vision to own higher-end, private pay properties located in major metropolitan markets. On July 1, 2013, we acquired the remaining interests in 49 previously unconsolidated properties. As of September 30, 2013, 120 properties are wholly owned and 5 properties are held in unconsolidated entities (see Note 7 for additional information). The total estimated purchase price of approximately $4,155,052,000, including approximately $2,456,011,000 of cash consideration, has been allocated on a preliminary basis to the tangible and identifiable intangible assets and liabilities in the table above based on respective fair values in accordance with our accounting policies. We funded the cash consideration and other associated costs of the acquisition from cash on-hand as well as draws on our primary unsecured line of credit and unsecured term loan (see Notes 9 and 10 for additional information).

We recognized $201,941,000 and $443,221,000 of revenues and $65,942,000 and $145,264,000 of net operating income from continuing operations related to the consolidated Sunrise portfolio during the three and nine month periods ended September 30, 2013, respectively. In addition, we incurred $72,337,000 of transaction costs, which include advisory fees, due diligence costs, severances, and fees for legal and valuation services during the nine month period ended September 30, 2013. These amounts are included in the seniors housing operating results reflected in Note 17.

The following unaudited pro forma consolidated results of operation have been prepared as if the Sunrise Merger had occurred as of January 1, 2012 based on the preliminary purchase price allocations discussed above. Amounts are in thousands, except per share data:

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended			
	September 30, 2013		September 30, 2012	
Revenues	$	2,268,062	$	1,828,395
Income (loss) from continuing operations attributable to common stockholders	$	(2,079)	$	(59,769)
Income (loss) from continuing operations attributable to common stockholders per share:				
Basic	$	(0.01)	$	(0.28)
Diluted	$	(0.01)	$	(0.28)

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Medical Facilities Activity

	Nine Months Ended	
(In thousands)	September 30, 2013(1)	September 30, 2012
Land and land improvements	$ -	$ 53,493
Buildings and improvements	144,708	487,255
Acquired lease intangibles	-	93,392
Restricted cash	505	975
Receivables and other assets	151	4,311
Total assets acquired	145,364	639,426
Secured debt	(26,300)	(238,589)
Accrued expenses and other liabilities	(479)	(18,075)
Total liabilities assumed	(26,779)	(256,664)
Non-cash acquisition activity	(12,056)(2)	(880)
Cash disbursed for acquisitions	106,529	381,882
Construction in progress additions	87,882	94,462
Less: Capitalized interest	(1,343)	(2,885)
Accruals(3)	(9,806)	(4,567)
Cash disbursed for construction in progress	76,733	87,010
Capital improvements to existing properties	17,887	30,505
Total cash invested in real property	$ 201,149	$ 499,397

(1) Includes acquisitions with an aggregate purchase price of $145,364,000 for which the allocation of purchase price consideration is preliminary and subject to change.
(2) Represents non-cash consideration exchanged in an asset swap transaction. Please see Note 5 for additional information.
(3) Represents non-cash accruals for amounts to be paid in future periods relating to properties that converted in the periods noted above.

Construction Activity

The following is a summary of the construction projects that were placed into service and began generating revenues during the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Development projects:		
Seniors housing triple-net	$ 105,265	$ 84,271
Medical facilities	78,839	111,327
Total development projects	184,104	195,598
Expansion projects	14,229	240
Total construction in progress conversions	$ 198,333	$ 195,838

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Real Estate Intangibles

The following is a summary of our real estate intangibles, excluding those classified as held for sale, as of the dates indicated (dollars in thousands):

		September 30, 2013	December 31, 2012
Assets:			
	In place lease intangibles	$ 918,507	$ 541,729
	Above market tenant leases	54,091	56,086
	Below market ground leases	61,461	61,450
	Lease commissions	16,483	14,419
	Gross historical cost	1,050,542	673,684
	Accumulated amortization	(472,389)	(257,242)
	Net book value	$ 578,153	$ 416,442
	Weighted-average amortization period in years	17.1	16.4
Liabilities:			
	Below market tenant leases	$ 76,239	$ 77,036
	Above market ground leases	9,490	9,490
	Gross historical cost	85,729	86,526
	Accumulated amortization	(32,894)	(27,753)
	Net book value	$ 52,835	$ 58,773
	Weighted-average amortization period in years	14.3	14.3

The following is a summary of real estate intangible amortization for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Rental income related to above/below market tenant leases, net	$ 235	$ (972)	$ 596	$ 452
Property operating expenses related to above/below market ground leases, net	(303)	(555)	(909)	(1,219)
Depreciation and amortization related to in place lease intangibles and lease commissions	(78,782)	(22,271)	(168,441)	(78,114)

The future estimated aggregate amortization of intangible assets and liabilities is as follows for the periods presented (in thousands):

	Assets	Liabilities

2013	$	93,415	$	1,730
2014		207,606		6,583
2015		58,816		5,623
2016		25,985		5,185
2017		26,825		4,894
Thereafter		165,506		28,820
Totals	$	578,153	$	52,835

HEALTH CARE REIT, INC.

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5. Dispositions, Assets Held for Sale and Discontinued Operations

The following is a summary of our real property disposition activity for the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Real property dispositions:		
Seniors housing triple-net	$ 138,650	$ 149,984
Medical facilities	201,845	106,347
Total dispositions	340,495	256,331
Gain (loss) on sales of real property, net	57,202	46,046
Non-cash disposition activity(1)	(12,204)	0
Proceeds from real property sales	$ 385,493	$ 302,377

(1) Represents non-cash consideration surrendered in an asset swap transaction. Please see Note 3 for additional information.

We have reclassified the income and expenses attributable to all properties sold prior to or held for sale at September 30, 2013 to discontinued operations. Expenses include an allocation of interest expense based on property carrying values and our weighted-average cost of debt. The following illustrates the reclassification impact as a result of classifying properties as discontinued operations for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$ 810	$ 20,747	$ 5,972	$ 70,166
Expenses:				
Interest expense	12	4,328	1,535	15,504
Property operating expenses	68	281	346	1,469
Provision for depreciation	313	5,014	1,879	19,899
Total expenses	393	9,623	3,760	36,872
Income (loss) from discontinued operations, net	$ 417	$ 11,124	$ 2,212	$ 33,294

6. Real Estate Loans Receivable

The following is a summary of our real estate loan activity for the periods presented (in thousands):

	Nine Months Ended					
	September 30, 2013			September 30, 2012		
	Seniors Housing Triple-net	Medical Facilities	Totals	Seniors Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	$ 27,392	$ 4,095	$ 31,487	$ 1,154	$ 0	$ 1,154
Draws on existing loans	42,772	3,077	45,849	33,710	1,030	34,740
	70,164	7,172	77,336	34,864	1,030	35,894

Net cash advances on real estate loans						
Receipts on real estate loans receivable:						
Loan payoffs	65,768	646	66,414	450	0	450
Principal payments on loans	16,972	2,169	19,141	14,204	1,923	16,127
Total receipts on real estate loans	82,740	2,815	85,555	14,654	1,923	16,577
Net cash advances (receipts) on real estate loans	(12,576)	4,357	(8,219)	20,210	(893)	19,317
Change in balance due to foreign currency translation	765	0	765	0	0	0
Net change in real estate loans receivable	$ (11,811)	$ 4,357	$ (7,454)	$ 20,210	$ (893)	$ 19,317

We recorded no provision for loan losses during the nine months ended September 30, 2013. At September 30, 2013, we had real estate loans with outstanding balances of $2,650,000 on non-accrual status with an allowance for loan losses of $0.

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7. Investments in Unconsolidated Entities

During the year ended December 31, 2010, we entered into a joint venture investment with Forest City Enterprises Inc. (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located at University Park in Cambridge, Massachusetts, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. This investment is recorded as an investment in unconsolidated entities on the balance sheet.

On December 31, 2010, we formed a strategic partnership with a national medical office building company whereby the partnership invested in 17 medical office properties. We own a controlling interest in 11 properties and consolidate them. Consolidation is based on a combination of ownership interest and control of operational decision-making authority. We do not own a controlling interest in six properties and account for them under the equity method. Our investment in the strategic partnership provides us access to health systems and includes development and property management resources.

During the three months ended June 30, 2012, we entered into a joint venture (structured under RIDEA) with Chartwell Retirement Residences (TSX:CSH.UN). The portfolio contains 42 properties in Canada, 39 of which are owned 50% by us and Chartwell, and three of which we wholly own. All properties are managed by Chartwell. Our investment in the 39 properties is recorded as an investment in unconsolidated entities on the balance sheet. The aggregate remaining unamortized basis difference of our investment in this joint venture of $9,488,000 at September 30, 2013 is primarily attributable to transaction costs that will be amortized over the weighted-average useful life of the related properties and included in the reported amount of income from unconsolidated entities.

In conjunction with the Sunrise Merger, we acquired joint venture interests in 54 properties and a 20% interest in a newly formed Sunrise management company, which manages the entire property portfolio. On July 1, 2013, we acquired the remaining interests in 49 of the properties. Our original investment of $49,759,000 relating to the five remaining unconsolidated properties and the management company is recorded as an investment in unconsolidated entities on the balance sheet. See Note 3 for additional information.

The results of operations for those investments accounted for under the equity method have been included in our consolidated results of operations from the date of acquisition by the joint ventures and are reflected in our statements of comprehensive income as income or loss from unconsolidated entities. The following is a summary of our income from and investments in unconsolidated entities (dollars in thousands):

	September 30, 2013		Nine Months Ended September 30,		Assets as of	
	Percentage Ownership	Properties	2013 Income (loss)	2012 Income (loss)	September 30, 2013	December 31, 2012
Seniors housing triple-net[1]	10% to 49%	-	$ 3,680	$ 26	$ 29,107	$ 34,618
Seniors housing operating	33% to 50%	44	(13,946)	(4,090)	257,232	217,701

Medical facilities	36% to 49%	13	6,737	6,314	189,235	186,617
Total			$ (3,529)	$ 2,250	$ 475,574	$ 438,936

(1) Asset amounts include an available-for-sale equity investment. See Note 16 for additional information.

HEALTH CARE REIT, INC.

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8. Credit Concentration

The following table summarizes certain information about our credit concentration as of September 30, 2013 (dollars in thousands):

Concentration by investment:(1)	Number of Properties(2)		Total Investment(2)	Percent of Investment(3)
Sunrise Senior Living	120	$	4,060,818	19%
Genesis HealthCare	177		2,662,196	12%
Revera	47		1,221,148	6%
Belmont Village	19		859,797	4%
Benchmark	37		852,960	4%
Remaining portfolio	740		11,949,624	55%
Totals	1,140	$	21,606,543	100%

(1) Genesis is in our seniors housing triple-net segment. Sunrise, Revera, and Belmont Village are in our seniors housing operating segment. Benchmark is in both our seniors housing triple-net and seniors housing operating segments.

(2) Excludes our share of investments in unconsolidated entities. Please see Note 7 for additional information.

(3) Investments with our top five relationships comprised 37% of total investments at December 31, 2012.

9. Borrowings Under Line of Credit Arrangements and Related Items

At September 30, 2013, we had a $2,250,000,000 unsecured line of credit arrangement with a consortium of 29 banks. We have an option to upsize the facility by up to an additional $1,000,000,000 through an accordion feature, allowing for the aggregate commitment of up to $3,250,000,000. The arrangement also allows us to borrow up to $500,000,000 in alternate currencies. At September 30, 2013, we had $595,000,000 outstanding at 1.36%, and the U.S. dollar equivalent of $242,670,000 outstanding in Pound Sterling at 1.67%. The revolving credit facility is scheduled to expire March 31, 2017, but can be extended for an additional year at our option. Borrowings under the revolver are subject to interest payable in periods no longer than three months at either the agent bank's prime rate of interest or the applicable margin over LIBOR interest rate, at our option (1.35% at September 30, 2013). The applicable margin is based on certain of our debt ratings and was 1.175% at September 30, 2013. In addition, we pay a facility fee annually to each bank based on the bank's commitment amount. The facility fee depends on certain of our debt ratings and was 0.225% at September 30, 2013. Principal is due upon expiration of the agreement. In addition, at September 30, 2013, we had $10,000,000 outstanding in unsecured revolving demand notes bearing interest at a blended rate of 1.11%.

The following information relates to aggregate borrowings under the unsecured line of credit arrangements for the periods presented (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2013		2012		2013		2012
Balance outstanding at quarter end	$	847,670	$	0	$	847,670	$	0
Maximum amount outstanding at any month end	$	1,019,050	$	145,000	$	1,019,050	$	897,000

Average amount outstanding (total of daily principal balances divided by days in period)	$ 562,978	$ 165,000	$ 527,890	$ 255,639
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.51%	2.30%	1.43%	1.79%

10. Senior Unsecured Notes and Secured Debt

We may repurchase, redeem or refinance convertible and non-convertible senior unsecured notes from time to time, taking advantage of favorable market conditions when available. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. The non-convertible senior unsecured notes are redeemable at our option, at any time in whole or from time to time in part, at a redemption price equal to the sum of (1) the principal amount of the notes (or portion of such notes) being redeemed plus accrued and unpaid interest thereon up to the redemption date and (2) any "make-whole" amount due under the terms of the notes in connection with early redemptions. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. At September 30, 2013, the annual principal payments due on these debt obligations were as follows (in thousands):

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	Senior Unsecured Notes(1,2)		Secured Debt (1,3)		Totals	
2013	$	300,000	$	75,866	$	375,866
2014		0		326,307		326,307
2015(4)		493,072		403,268		896,340
2016		1,200,000		384,127		1,584,127
2017		450,000		341,845		791,845
Thereafter		3,975,118		1,534,510		5,509,628
Totals	$	6,418,190	$	3,065,923	$	9,484,113

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.
(2) Annual interest rates range from 2.25% to 6.5%, excluding the Canadian denominated unsecured term loan discussed in footnote 4 and the $500,000,000 unsecured term loan discussed below.
(3) Annual interest rates range from 1.0% to 9.1%. Carrying value of the properties securing the debt totaled $6,336,955,000 at September 30, 2013.
(4) On July 30, 2012, we completed funding on a $250,000,000 Canadian denominated unsecured term loan (approximately $243,072,000 USD at exchange rates on September 30, 2013). The loan matures July 27, 2015 (with an option to extend for an additional year at our discretion) and bears interest at the Canadian Dealer Offered Rate plus 145 basis points (2.67% at September 30, 2013).

During the nine months ended September 30, 2013, we borrowed on a $500,000,000 unsecured term loan entered into as part of our unsecured line of credit arrangement. The loan matures on March 31, 2016, but can be extended up to two years at our option and bears interest at LIBOR plus 1.35% (1.53% at September 30, 2013).

The following is a summary of our senior unsecured note activity, excluding the Canadian denominated unsecured term loan, during the periods presented (dollars in thousands):

	Nine Months Ended					
	September 30, 2013			September 30, 2012		
	Amount		Weighted Avg. Interest Rate	Amount		Weighted Avg. Interest Rate
Beginning balance	$	5,894,403	4.675%	$	4,464,927	5.133%
Debt issued		500,000	1.552%		600,000	4.125%
Debt extinguished		-	0.000%		(76,853)	8.000%
Debt redeemed		(219,285)	3.000%		(293,671)	4.750%

Ending balance	$	6,175,118	4.480%	$	4,694,403	5.030%

The following is a summary of our secured debt principal activity for the periods presented (dollars in thousands):

	Nine Months Ended					
	September 30, 2013			September 30, 2012		
	Amount		Weighted Avg. Interest Rate	Amount		Weighted Avg. Interest Rate
Beginning balance	$	2,311,586	5.14%	$	2,108,373	5.34%
Debt issued		85,140	5.05%		145,713	4.13%
Debt assumed		1,241,898	4.11%		311,653	5.71%
Debt extinguished		(535,367)	3.52%		(237,259)	4.29%
Principal payments		(40,006)	5.27%		(28,247)	5.35%
Foreign currency		2,672	4.04%		288	5.62%
Ending balance	$	3,065,923	5.08%	$	2,300,521	5.42%

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2013, we were in compliance with all of the covenants under our debt agreements.

HEALTH CARE REIT, INC.

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11. Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. In addition, non-U.S. investments expose us to the potential losses associated with adverse changes in foreign currency to U.S. Dollar exchange rates. We may elect to manage this risk through the use of forward exchange contracts and issuing debt in foreign currencies.

I nterest Rate Swap Contracts Designated as Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (“OCI”), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. As of September 30, 2013, we had one interest rate swap for a total aggregate notional amount of $11,692,000. The swap hedges interest payments associated with long-term LIBOR based borrowings and matures on December 31, 2013. Approximately $1,910,000 of losses, which are included in accumulated other comprehensive income (“AOCI”), are expected to be reclassified into earnings in the next 12 months.

Foreign Currency Hedges

For instruments that are designated and qualify as net investment hedges, the variability in the foreign currency to U.S. dollar of the instrument is recorded as a cumulative translation adjustment component of OCI. The balance of the cumulative translation adjustment will be reclassified to earnings when the hedged investment is sold or substantially liquidated. On February 15, 2012, we entered into a forward exchange contract to purchase $250,000,000 Canadian Dollars at a fixed rate in the future. The forward contract was used to limit exposure to fluctuations in the Canadian Dollar to U.S. Dollar exchange rate associated with our initial cash investment funded for the Chartwell transaction. On May 3, 2012, this forward exchange contract was settled for a gain of $2,772,000, which was reflected on the consolidated statement of comprehensive income, and the proceeds were used to fund our investment. On May 3, 2012, we also entered into a forward contract to sell $250,000,000 Canadian Dollars at a fixed rate on July 31, 2012 to hedge our net investment. We settled the forward contract on July 31, 2012 with the net loss reflected in OCI. Upon settlement of the forward contract we entered into a $250,000,000 Canadian Dollar term loan, which has been designated as a net investment hedge of our Chartwell investment, and changes in fair value are reported in OCI as no ineffectiveness is anticipated.

On August 30, 2012, we entered into two cross currency swaps to purchase £125,000,000. The swaps were used to limit exposure to fluctuations in the Pound Sterling to U.S. Dollar exchange rate associated with our initial cash investment funded for the Sunrise transaction. The cross currency swaps have been designated as a net investment hedge, and changes in fair value are reported in OCI as no ineffectiveness is anticipated.

On September 17, 2012, we entered into two forward exchange contracts to purchase $14,000,000 Canadian Dollars and £23,000,000 at a fixed rate in the future. The forward contracts were used to limit exposure to fluctuations in foreign currency associated with future international transactions. These forward contacts were settled on March 22, 2013 for a realized loss of $2,309,000.

On January 14, 2013 and January 15, 2013, we entered into three forward exchange contracts to sell £675,000,000 at a fixed rate in the future. The forward exchange contracts were used to hedge a portion of our investment in the United Kingdom at a fixed Pound Sterling rate in U.S. dollars and were settled on July 12, 2013. We received proceeds of $63,514,000. The forward exchange contracts were designated as net investment hedges and the change in fair value is reported in OCI.

On April 4, 2013, we entered into three forward exchange contracts to purchase $600,000,000 Canadian Dollars at a fixed rate in the future and three forward exchange contracts to sell $600,000,000 Canadian Dollars at a fixed rate in the future. The forward contracts were used to limit exposure to fluctuations in the Canadian Dollar to U.S. Dollar exchange rate associated with our initial cash investment funded for an acquisition in Canada. On May 22, 2013, the three forward exchange purchase contracts were settled for a realized loss of $10,355,000, which was reflected on the consolidated statement of comprehensive income, and the proceeds were used to fund our investment. On May 22, 2013, we designated the three forward exchange sell contracts as net investment hedges, and changes in fair value are reported in OCI as no ineffectiveness is anticipated. Prior to designating the three forward exchange sell contracts as net investments, they were marked to fair value and an unrealized gain of $13,071,000 was reflected on the consolidated statement of comprehensive income.

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On July 1, 2013, we entered into two forward exchange contracts to purchase £144,411,000 at a fixed rate in the future. The forward contracts were used to limit exposure to fluctuations in the Pound Sterling to U.S. Dollar exchange rate associated with our initial cash investment for an acquisition in the United Kingdom. In July 2013, these forward contracts were settled for a realized loss of $4,872,000, which was reflected on the consolidated statement of comprehensive income, and the proceeds were used to fund our investment.

On July 12, 2013, we entered into three forward exchange contracts to sell £675,000,000 at a fixed rate in the future. The forward exchange contracts were used to hedge a portion of our investment in the United Kingdom at a fixed Pound Sterling rate in U.S. dollars and mature on December 31, 2013. The forward exchange contracts are designated as net investment hedges and changes in fair value are reported in OCI as no ineffectiveness is expected.

The following presents the impact of derivative instruments on the statement of comprehensive income and OCI for the periods presented (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2013	2012	2013	2012
Gain (loss) on interest rate swap recognized in OCI (effective portion)	OCI	$ (4)	$ 797	$ (12)	$ 2,342
Gain (loss) on interest rate swaps reclassified from AOCI into income (effective portion)	Interest expense	(477)	383	(1,428)	1,204
Gain (loss) on interest rate swaps recognized in income	Gain (loss) on derivatives, net	0	0	0	(96)
Gain (loss) on foreign exchange contracts recognized in income	Gain (loss) on derivatives, net	(4,872)	(409)	(4,465)	1,808
Gain (loss) on foreign exchange contracts and term loans designated as net investment hedge recognized in OCI	OCI	(110,404)	(12,663)	(19,867)	(5,747)

12. Commitments and Contingencies

At September 30, 2013, we had six outstanding letter of credit obligations totaling $5,658,000 and expiring between 2013 and 2015. At September 30, 2013, we had outstanding construction in process of $158,006,000 for leased properties and were committed to providing additional funds of approximately $261,625,000 to complete construction. At September 30, 2013, we had contingent purchase obligations totaling $59,561,000. These contingent purchase obligations relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with Accounting Standards Codification ("ASC") Topic 840 "Leases." A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At September 30, 2013, we had operating lease obligations of $882,088,000 relating to certain ground leases and company office space and capital lease obligations of $118,463,000 relating to certain investment properties. We incurred rental expense relating to company office space of $410,000 and $1,217,000 for the three months and nine months ended September 30, 2013, respectively, as compared to $330,000 and $931,000 for the same periods in 2012. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At September 30, 2013, aggregate future minimum rentals to be received under these noncancelable subleases totaled $44,987,000.

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13. Stockholders' Equity

The following is a summary of our stockholders' equity capital accounts as of the dates indicated:

	September 30, 2013	December 31, 2012
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	26,224,854	26,224,854
Outstanding shares	26,224,854	26,224,854
Common Stock, $1.00 par value:		
Authorized shares	400,000,000	400,000,000
Issued shares	288,821,107	260,780,109
Outstanding shares	288,360,031	260,373,754

Preferred Stock. The following is a summary of our preferred stock activity during the periods indicated:

	Nine Months Ended			
	September 30, 2013		September 30, 2012	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	26,224,854	6.493%	25,724,854	7.013%
Shares issued	-	0.000%	11,500,000	6.500%
Shares redeemed	-	0.000%	(11,000,000)	7.716%
Ending balance	26,224,854	6.493%	26,224,854	6.493%

Common Stock. The following is a summary of our common stock issuances during the nine months ended September 30, 2013 and 2012 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
February 2012 public issuance	20,700,000	$ 53.50	$ 1,107,450	$ 1,062,256
August 2012 public issuance	13,800,000	58.75	810,750	778,011
September 2012 public issuance	29,900,000	56.00	1,674,400	1,607,140
2012 Dividend reinvestment plan issuances	1,485,598	55.65	82,678	82,678
2012 Option exercises	155,195	39.61	6,147	6,147
2012 Senior note conversions	1,039,721		0	0
2012 Totals	67,080,514		$ 3,681,425	$ 3,536,232
May 2013 public issuance	23,000,000	$ 73.50	$ 1,690,500	$ 1,630,281
2013 Dividend reinvestment plan issuances	2,379,609	64.62	153,762	153,762
2013 Option exercises	200,467	42.45	8,509	8,509
2013 Senior note conversions	987,967		0	0
2013 Equity issued in acquisition of noncontrolling interest	1,108,917		0	0

2013 Totals	27,676,960	$ 1,852,771	$ 1,792,552

During the three months ended September 30, 2013, we acquired the remaining 20% noncontrolling interest in an existing partnership for $91,000,000 which consisted of $23,247,000 of cash and 1,108,917 shares of common stock. In connection with the acquisition, we incurred $2,732,000 of transaction costs which we have included as a reduction to additional paid in capital.

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Dividends. The increase in dividends is primarily attributable to increases in our common shares outstanding as described above. Please refer to Note 18 for information related to federal income tax of dividends. The following is a summary of our dividend payments (in thousands, except per share amounts):

	Nine Months Ended			
	September 30, 2013		September 30, 2012	
	Per Share	Amount	Per Share	Amount
Common Stock	$ 2.2950	$ 618,992	$ 2.2200	$ 460,936
Series D Preferred Stock	-	0	0.5030	2,012
Series F Preferred Stock	-	0	0.4872	3,410
Series H Preferred Stock	2.1438	750	2.1438	750
Series I Preferred Stock	2.4375	35,039	2.4375	35,039
Series J Preferred Stock	1.2189	14,016	0.9841	11,316
Totals		$ 668,797		$ 513,463

Accumulated Other Comprehensive Income. The following is a summary of accumulated other comprehensive income (loss) for the periods presented (in thousands):

	Unrecognized gains (losses) related to:				
	Foreign Currency Translation	Equity Investments	Actuarial losses	Cash Flow Hedges	Total
Balance at December 31, 2012	$ (881)	$ (216)	$ (2,974)	$ (6,957)	$ (11,028)
Other comprehensive income before reclassification adjustments	(13,517)	(346)	0	(12)	(13,875)
Reclassification amount to net income	0	0	0	1,428(1)	1,428
Net current-period other comprehensive income	(13,517)	(346)	0	1,416	(12,447)
Balance at September 30, 2013	$ (14,398)	$ (562)	$ (2,974)	$ (5,541)	$ (23,475)
Balance at December 31, 2011	$ 0	$ (619)	$ (2,748)	$ (8,561)	$ (11,928)
Other comprehensive income before reclassification adjustments	166	192	0	2,342	2,700
Reclassification amount to net income	0	0	0	(1,204)(1)	(1,204)
Net current-period other comprehensive income	166	192	0	1,138	1,496
Balance at September 30, 2012	$ 166	$ (427)	$ (2,748)	$ (7,423)	$ (10,432)

(1) Please see Note 11 for additional information.

14. Stock Incentive Plans

Our Amended and Restated 2005 Long-Term Incentive Plan ("2005 Plan") authorizes up to 6,200,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. The 2005 Plan replaced the 1995 Stock Incentive Plan ("1995 Plan") and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan vested through 2010 and expire ten years from the date of grant. Our non-employee directors, officers and key employees are eligible to participate in the 2005 Plan. The 2005 Plan allows for the issuance of, among other things, stock options, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three years for non-employee directors to five years for officers and key employees. Options expire ten years from the date of grant. Stock-based compensation expense totaled $3,956,000 and $16,650,000 for the three and nine months ended September 30, 2013, respectively, and $2,592,000 and $16,229,000 for the same periods in 2012.

HEALTH CARE REIT, INC.

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15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator for basic and diluted earnings per share - net income (loss) attributable to common stockholders	$ 20,691	$ 37,269	$ 67,245	$ 131,308
Denominator for basic earnings per share - weighted average shares	286,020	224,391	273,148	212,592
Effect of dilutive securities:				
Employee stock options	196	238	235	240
Non-vested restricted shares	567	301	417	293
Convertible senior unsecured notes	1,246	1,328	1,447	950
Dilutive potential common shares	2,009	1,867	2,099	1,483
Denominator for diluted earnings per share - adjusted weighted average shares	288,029	226,258	275,247	214,075
Basic earnings per share	$ 0.07	$ 0.17	$ 0.25	$ 0.62
Diluted earnings per share	$ 0.07	$ 0.16	$ 0.24	$ 0.61

The diluted earnings per share calculations exclude the dilutive effect of 0 and 237,000 common stock equivalents for the three months ended September 30, 2013 and 2012, respectively, and 0 common stock equivalents for the nine months ended September 30, 2013 and 2012, because the exercise prices were higher than the average market price. The Series H Cumulative Convertible and Redeemable Preferred Stock and Series I Cumulative Convertible Perpetual Preferred Stock were not included in the calculations as the effect of conversions into common stock was anti-dilutive.

16. Disclosure about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Mortgage Loans and Other Real Estate Loans Receivable — The fair value of mortgage loans and other real estate loans receivable is generally estimated by using Level 2 and Level 3 inputs such as discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Cash and Cash Equivalents — The carrying amount approximates fair value.

Available-for-sale Equity Investments — Available-for-sale equity investments are recorded at their fair value based on Level 1 publicly available trading prices.

Borrowings Under Unsecured Line of Credit Arrangements — The carrying amount of the unsecured line of credit arrangements approximates fair value because the borrowings are interest rate adjustable.

Senior Unsecured Notes — The fair value of the senior unsecured notes payable was estimated based on Level 1 publicly available trading prices.

Secured Debt — The fair value of fixed rate secured debt is estimated using Level 2 inputs by discounting the estimated future cash flows using the current rates at which similar loans would be made with similar credit ratings and for the same remaining maturities. The carrying amount of variable rate secured debt approximates fair value because the borrowings are interest rate adjustable.

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Interest Rate Swap Agreements — Interest rate swap agreements are recorded in other assets or other liabilities on the balance sheet at fair market value. Fair market value is estimated using Level 2 inputs by utilizing pricing models that consider forward yield curves and discount rates.

Foreign Currency Forward Contracts — Foreign currency forward contracts are recorded in other assets or other liabilities on the balance sheet at fair market value. Fair market value is determined using Level 2 inputs by estimating the future value of the currency pair based on existing exchange rates, comprised of current spot and traded forward points, and calculating a present value of the net amount using a discount factor based on observable traded interest rates.

The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Mortgage loans receivable	$ 131,138	$ 133,554	$ 87,955	$ 88,975
Other real estate loans receivable	176,239	182,153	807,710	820,195
Available-for-sale equity investments	1,037	1,037	1,384	1,384
Cash and cash equivalents	164,838	164,838	1,033,764	1,033,764
Foreign currency forward contracts	7,669	7,669	0	0
Financial liabilities:				
Borrowings under unsecured line of credit arrangements	$ 847,670	$ 847,670	$ 0	$ 0
Senior unsecured notes	6,395,638	6,806,353	6,114,151	6,793,424
Secured debt	3,115,862	3,262,955	2,336,196	2,515,145
Interest rate swap agreements	68	68	264	264
Foreign currency forward contracts	79,544	79,544	7,247	7,247

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Please see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by our Current Report on Form 8-K filed on August 6, 2013, for additional information.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Items Measured at Fair Value on a Recurring Basis

The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The following summarizes items measured at fair value on a recurring basis (in thousands):

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	Fair Value Measurements as of September 30, 2013			
	Total	Level 1	Level 2	Level 3
Available-for-sale equity investments[1]	$ 1,037	$ 1,037	$ 0	$ 0
Interest rate swap agreements[2]	(68)	0	(68)	0
Foreign currency forward contracts[2]	(71,875)	0	(71,875)	0
Totals	$ (70,906)	$ 1,037	$ (71,943)	$ 0

(1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date.
(2) Please see Note 11 for additional information.

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities in our balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets, liabilities and noncontrolling interests that are measured at fair value on a nonrecurring basis include those acquired/assumed in business combinations (see Note 3) and asset impairments (if applicable, see Note 5 for impairments of real property and Note 6 for impairments of loans receivable). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on company-specific inputs and our assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available. As such, we have determined that each of these fair value measurements generally reside within Level 3 of the fair value hierarchy. We estimate the fair value of real estate and related intangibles using the income approach and unobservable data such as net operating income and estimated capitalization and discount rates. We also consider local and national industry market data including comparable sales, and commonly engage an external real estate appraiser to assist us in our estimation of fair value. We estimate the fair value of assets held for sale based on current sales price expectations or, in the absence of such price expectations, Level 3 inputs described above. We estimate the fair value of secured debt assumed in business combinations using current interest rates at which similar borrowings could be obtained on the transaction date.

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17. Segment Reporting

We invest in seniors housing and health care real estate. We evaluate our business and make resource allocations on our five operating segments: seniors housing triple-net, seniors housing operating, medical office buildings, hospitals and life science. Our seniors housing triple-net properties include skilled nursing/post-acute facilities, assisted living facilities, independent living/continuing care retirement communities and combinations thereof. Under the seniors housing triple-net segment, we invest in seniors housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our seniors housing operating properties include seniors housing communities that are owned and/or operated through RIDEA structures (see Notes 3 and 18).

Our medical facility properties include medical office buildings, hospitals and life science buildings which are aggregated into our medical facilities reportable segment. Our medical office buildings are typically leased to multiple tenants and generally require a certain level of property management. Our hospital investments are leased and we are not involved in the management of the property. Our life science investment represents an investment in an unconsolidated entity (see Note 7).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by our Current Report on Form 8-K filed on August 6, 2013). The results of operations for all acquisitions described in Note 3 are included in our consolidated results of operations from the acquisition dates and are components of the appropriate segments. There are no intersegment sales or transfers.

We evaluate performance based upon net operating income from continuing operations ("NOI") of each segment. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.

Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining NOI.

Summary information for the reportable segments for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

Three Months Ended September 30, 2013:	Seniors Housing Triple-net	Seniors Housing Operating	Medical Facilities	Non-segment / Corporate	Total
Rental income	$199,408	$ -	$ 112,323	$ -	$ 311,731
Resident fees and services	-	466,127	-	-	466,127
Interest income	5,035	-	2,594	-	7,629
Other income	778	167	466	32	1,443
Total revenues	205,221	466,294	115,383	32	786,930
Property operating expenses	-	(311,575)	(31,155)	-	(342,730)
Net operating income from continuing operations	205,221	154,719	84,228	32	444,200

Reconciling items:					
Interest expense	(5,968)	(24,693)	(9,143)	(76,726)	(116,530)
(Loss) gain on derivatives, net	(4,872)	-	-	-	(4,872)
Depreciation and amortization	(58,148)	(144,578)	(39,942)	-	(242,668)
General and administrative	-	-	-	(28,718)	(28,718)
Transaction costs	(4,026)	(18,882)	(683)	-	(23,591)
(Loss) gain on extinguishment of debt, net	-	5,252	-	(1,184)	4,068
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	$ 132,207	$ (28,182)	$ 34,460	$ (106,596)	$ 31,889
Total assets	$ 9,222,731	$ 9,031,224	$ 4,645,540	$ 150,310	$ 23,049,805

Three Months Ended September 30, 2012:	Seniors Housing Triple-net	Seniors Housing Operating	Medical Facilities	Non-segment / Corporate	Total
Rental income	$ 178,193	$ -	$ 99,726	$ -	$ 277,919
Resident fees and services	-	174,464	-	-	174,464
Interest income	6,116	-	1,995	-	8,111
Other income	662	-	400	277	1,339
Total revenues	184,971	174,464	102,121	277	461,833
Property operating expenses	-	(118,369)	(26,048)	-	(144,417)
Net operating income from continuing operations	184,971	56,095	76,073	277	317,416
Reconciling items:					
Interest expense	(347)	(17,474)	(7,940)	(66,154)	(91,915)
(Loss) gain on derivatives, net	-	(409)	-	-	(409)
Depreciation and amortization	(52,294)	(39,591)	(35,959)	-	(127,844)
General and administrative	-	-	-	(23,679)	(23,679)
Transaction costs	(5,590)	(1,966)	(708)	-	(8,264)
(Loss) gain on extinguishment of debt, net	(126)	(89)	-	-	(215)
Provision for loan losses	(27,008)	-	-	-	(27,008)
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	$ 99,606	$ (3,434)	$ 31,466	$ (89,556)	$ 38,082

Nine Months Ended September 30, 2013:	Seniors Housing Triple-net	Seniors Housing Operating	Medical Facilities	Non-segment / Corporate	Total
Rental income	$ 573,112	$ -	$ 336,547	$ -	$ 909,659
Resident fees and services	-	1,164,446	-	-	1,164,446
Interest income	16,311	757	7,257	-	24,325
Other income	1,183	169	1,539	277	3,168
Total revenues	590,606	1,165,372	345,343	277	2,101,598
Property operating expenses	-	(785,050)	(89,910)	-	(874,960)
Net operating income from continuing operations	590,606	380,322	255,433	277	1,226,638
Reconciling items:					
Interest expense	(15,841)	(63,175)	(28,441)	(229,128)	(336,585)
(Loss) gain on derivatives, net	(4,872)	407	-	-	(4,465)
Depreciation and amortization	(169,603)	(338,099)	(120,998)	-	(628,700)
General and administrative	-	-	-	(79,799)	(79,799)
Transaction costs	(15,730)	(101,006)	(971)	-	(117,707)
(Loss) gain on extinguishment of debt, net	-	5,560	-	(1,184)	4,376
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	$ 384,560	$ (115,991)	$ 105,023	$ (309,834)	$ 63,758

Nine Months Ended September 30, 2012:	Seniors Housing Triple-net	Seniors Housing Operating	Medical Facilities	Non-segment / Corporate	Total
Rental income	$ 508,004	$ -	$ 281,744	$ -	$ 789,748
Resident fees and services	-	498,295	-	-	498,295
Interest income	17,977	-	6,154	-	24,131
Other income	2,268	-	1,482	755	4,505
Total revenues	528,249	498,295	289,380	755	1,316,679
Property operating expenses	-	(336,952)	(72,284)	-	(409,236)
Net operating income from continuing operations	528,249	161,343	217,096	755	907,443
Reconciling items:					
Interest expense	(602)	(49,537)	(22,338)	(198,746)	(271,223)
(Loss) gain on derivatives, net	(96)	1,808	-	-	1,712
Depreciation and amortization	(147,074)	(123,820)	(102,450)	-	(373,344)
General and administrative	-	-	-	(77,302)	(77,302)
Transaction costs	(30,796)	(6,365)	(5,374)	-	(42,535)
(Loss) gain on extinguishment of debt, net	(2,363)	1,089	483	-	(791)
Provision for loan losses	(27,008)	-	-	-	(27,008)
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	$ 320,310	$ (15,482)	$ 87,417	$ (275,293)	$ 116,952

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Our portfolio of properties and other investments are located in the United States, the United Kingdom and Canada. Revenues and assets are attributed to the country in which the property is physically located. The following is a summary of geographic information for our operations for the periods presented (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2013		September 30, 2012		September 30, 2013		September 30, 2012	
Revenues:	Amount	%	Amount	%	Amount	%	Amount	%
United States	$ 669,968	85.1%	$ 454,742	98.5%	$ 1,837,068	87.4%	$ 1,307,533	99.3%
International	116,962	14.9%	7,091	1.5%	264,530	12.6%	9,146	0.7%
Total	$ 786,930	100.0%	$ 461,833	100.0%	$ 2,101,598	100.0%	$ 1,316,679	100.0%

	As of			
	September 30, 2013		December 31, 2012	
Assets:	Amount	%	Amount	%
United States	$ 19,622,576	85.1%	$ 18,692,214	95.6%
International	3,427,229	14.9%	856,895	4.4%
Total	$ 23,049,805	100.0%	$ 19,549,109	100.0%