

HEALTH CARE REIT INC /DE/

Form 10-Q

May 10, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

or

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 No

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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 30, 2011, the registrant had 176,757,398 shares of common stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEETS****HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	March 31, 2011 (Unaudited)	December 31, 2010 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned:		
Land and land improvements	\$ 819,622	\$ 727,050
Buildings and improvements	8,707,973	7,627,132
Acquired lease intangibles	347,620	258,079
Real property held for sale, net of accumulated depreciation	71,126	23,441
Construction in progress	353,812	356,793
Gross real property owned	10,300,153	8,992,495
Less accumulated depreciation and amortization	(867,050)	(836,966)
Net real property owned	9,433,103	8,155,529
Real estate loans receivable:		
Real estate loans receivable	447,351	436,580
Less allowance for losses on loans receivable	(1,524)	(1,276)
Net real estate loans receivable	445,827	435,304
Net real estate investments	9,878,930	8,590,833
Other assets:		
Equity investments	250,111	237,107
Goodwill	51,207	51,207
Deferred loan expenses	48,620	32,960
Cash and cash equivalents	2,667,995	131,570
Restricted cash	38,722	79,069
Receivables and other assets	322,459	328,988
Total other assets	3,379,114	860,901
Total assets	\$ 13,258,044	\$ 9,451,734
Liabilities and equity		
Liabilities:		
Borrowings under unsecured line of credit arrangement	\$	\$ 300,000
Senior unsecured notes	4,427,850	3,034,949
Secured debt	1,711,973	1,125,906
Capital lease obligations	8,813	8,881
Accrued expenses and other liabilities	334,259	244,345

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Total liabilities	6,482,895	4,714,081
Redeemable noncontrolling interests	4,546	4,553
Equity:		
Preferred stock	1,010,417	291,667
Common stock	176,563	147,155
Capital in excess of par value	6,280,906	4,932,468
Treasury stock	(13,480)	(11,352)
Cumulative net income	1,708,248	1,676,196
Cumulative dividends	(2,538,601)	(2,427,881)
Accumulated other comprehensive income (loss)	(10,295)	(11,099)
Other equity	6,383	5,697
Total Health Care REIT, Inc. stockholders' equity	6,620,141	4,602,851
Noncontrolling interests	150,462	130,249
Total equity	6,770,603	4,733,100
Total liabilities and equity	\$ 13,258,044	\$ 9,451,734

NOTE: The consolidated balance sheet at December 31, 2010 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

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share data)	
Revenues:		
Rental income	\$ 169,658	\$ 135,333
Resident fees and services	71,286	
Interest income	11,709	9,048
Other income	2,824	996
Total revenues	255,477	145,377
Expenses:		
Interest expense	58,897	28,425
Property operating expenses	64,485	12,513
Depreciation and amortization	73,476	40,652
Transaction costs	36,065	7,714
General and administrative	17,714	16,821
Loss (gain) on extinguishment of debt		18,038
Provision for loan losses	248	
Total expenses	250,885	124,163
Income from continuing operations before income taxes and income from unconsolidated joint ventures	4,592	21,214
Income tax (expense) benefit	(129)	(84)
Income from unconsolidated joint ventures	1,543	768
Income from continuing operations	6,006	21,898
Discontinued operations:		
Gain (loss) on sales of properties	26,156	6,718
Impairment of assets	(202)	
Income (loss) from discontinued operations, net	(150)	3,078
Discontinued operations, net	25,804	9,796
Net income	31,810	31,694
Less: Preferred stock dividends	8,680	5,509
Less: Net income (loss) attributable to noncontrolling interests ⁽¹⁾	(242)	373
Net income attributable to common stockholders	\$ 23,372	\$ 25,812
Average number of common shares outstanding:		
Basic	154,945	123,270
Diluted	155,485	123,790

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Earnings per share:

Basic:

Income from continuing operations attributable to common stockholders	\$	(0.02)	\$	0.13
Discontinued operations, net		0.17		0.08
Net income attributable to common stockholders*	\$	0.15	\$	0.21

Diluted:

Income from continuing operations attributable to common stockholders	\$	(0.02)	\$	0.13
Discontinued operations, net		0.17		0.08
Net income attributable to common stockholders*	\$	0.15	\$	0.21

Dividends declared and paid per common share	\$	0.69	\$	0.68
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* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

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HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Three Months Ended March 31, 2011									
	Preferred	Common	Capital in	Treasury	Cumulative	Cumulative	Accumulated	Other	Noncontrolling	
(in thousands)	Stock	Stock	Excess of Par Value	Stock	Net Income	Dividends	Comprehensive Income (Loss)	Equity	Interests	Total
balances at beginning of period	\$ 291,667	\$ 147,155	\$ 4,932,468	\$ (11,352)	\$ 1,676,196	\$ (2,427,881)	\$ (11,099)	\$ 5,697	\$ 130,249	\$ 4,733,100
Comprehensive income:										
Net income										
(Loss)					32,052				(250)	31,802
Other comprehensive income:										
Unrealized gain (loss) on equity investments							322			322
Cash flow hedge activity							482			482
Total comprehensive income										32,606
Contributions										
Noncontrolling interests			6,017						27,486	33,503
Distributions to noncontrolling interests									(7,023)	(7,023)
Amounts related to issuance of common stock										
from dividend investment										
and stock incentive plans,										
net of forfeitures		658	34,486	(2,128)				(353)		32,663
proceeds from issuance of		28,750	1,329,944							1,358,694

Common stock proceeds from issuance of preferred stock	718,750		(22,009)								696,741
Compensation expense								1,039			1,039
Cash dividends paid:											
Common stock											
Cash dividends						(102,040)					(102,040)
Preferred stock											
Cash dividends						(8,680)					(8,680)
Balances at end of period	\$ 1,010,417	\$ 176,563	\$ 6,280,906	\$ (13,480)	\$ 1,708,248	\$ (2,538,601)	\$ (10,295)	\$ 6,383	\$ 150,462	\$ 6,770,600	

Three Months Ended March 31, 2010

	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	\$ 288,683	\$ 123,385	\$ 3,900,666	\$ (7,619)	\$ 1,547,669	\$ (2,057,658)	\$ (2,891)	\$ 4,804	\$ 10,412	\$ 3,807,451
Comprehensive income:										
Net income (loss)					31,321				373	31,694
Other comprehensive income:										
Unrealized gain (loss) on equity investments							90			90
Cash flow hedge activity							(1,291)			(1,291)
Total comprehensive income										30,493
Contributions by noncontrolling interests									1,359	1,359
Distributions to noncontrolling									(2,462)	(2,462)

interests										
Amounts										
related to										
issuance of										
common stock										
from dividend										
reinvestment										
and stock										
incentive plans,										
net of										
forfeitures		577	24,044	(3,684)			(238)			20,699
Conversion of										
preferred stock	(709)	17	692							
Equity										
component of										
convertible										
debt			(8,565)							(8,565)
Option										
compensation										
expense							973			973
Cash dividends										
paid:										
Common stock										
cash dividends						(84,523)				(84,523)
Preferred stock										
cash dividends						(5,509)				(5,509)
Balances at end										
of period	\$ 287,974	\$ 123,979	\$ 3,916,837	\$ (11,303)	\$ 1,578,990	\$ (2,147,690)	\$ (4,092)	\$ 5,539	\$ 9,682	\$ 3,759,916

See notes to unaudited consolidated financial statements

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Operating activities		
Net income	\$ 31,810	\$ 31,694
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	74,768	43,581
Other amortization expenses	4,338	3,414
Provision for loan losses	248	
Impairment of assets	202	
Stock-based compensation expense	5,593	7,550
Loss (gain) on extinguishment of debt		18,038
Income from unconsolidated joint ventures	(1,543)	(768)
Rental income in excess of cash received	(1,418)	(2,715)
Amortization related to above (below) market leases, net	(658)	(487)
Loss (gain) on sales of properties	(26,156)	(6,718)
Increase (decrease) in accrued expenses and other liabilities	57,901	5,824
Decrease (increase) in receivables and other assets	(29,973)	(6,925)
Net cash provided from (used in) operating activities	115,112	92,488
Investing activities		
Investment in real property, net of cash acquired	(684,677)	(161,811)
Capitalized interest	(4,665)	(7,076)
Investment in real estate loans receivable	(23,112)	(11,151)
Other investments, net of payments	(2,815)	(114)
Principal collected on real estate loans receivable	12,341	4,666
Contributions to unconsolidated joint ventures	(602)	(159,981)
Distributions from unconsolidated joint ventures	980	
Decrease in restricted cash	45,797	5,545
Proceeds from sales of real property	44,048	38,059
Net cash provided from (used in) investing activities	(612,705)	(291,863)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	(300,000)	285,000
Proceeds from issuance of senior unsecured notes	1,381,086	335,212
Payments to extinguish senior unsecured notes		(342,394)
Payments on secured debt	(5,906)	(3,378)
Net proceeds from the issuance of common stock	1,388,118	17,791
Net proceeds from the issuance of preferred stock	696,741	
Decrease (increase) in deferred loan expenses	(8,339)	(639)
Contributions by noncontrolling interests ⁽¹⁾	95	1,359
Distributions to noncontrolling interests ⁽¹⁾	(7,057)	(2,462)

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Cash distributions to stockholders	(110,720)	(90,032)
Net cash provided from (used in) financing activities	3,034,018	200,457
Increase (decrease) in cash and cash equivalents	2,536,425	1,082
Cash and cash equivalents at beginning of period	131,570	35,476
Cash and cash equivalents at end of period	\$ 2,667,995	\$ 36,558
Supplemental cash flow information:		
Interest paid	\$ 35,081	\$ 25,215
Income taxes paid	31	94

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

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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 senior housing and health care real estate. Our full service platform also offers property management and development services to our customers. As of March 31, 2011, our broadly diversified portfolio consisted of 727 properties in 44 states. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities. More information is available on our website at www.hcreit.com.

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 three months ended March 31, 2011 are not necessarily an indication of the results that may be expected for the year ending December 31, 2011. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

New Accounting Standards

In April 2011, FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (TDR). It intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. Early adoption is permitted. We are continuing to evaluate the impact of adoption of this ASU.

3. Real Property Acquisitions and Development*Silverado Partnership*

During the three months ended March 31, 2011, we completed the formation of our partnership with Silverado Senior Living, Inc. to own and operate a portfolio of 18 combination senior housing and care communities located in California, Texas, Arizona and Utah. We own a 95.4% partnership interest and Silverado owns the remaining 4.6% interest and continues to manage the communities. The partnership owns and operates six communities previously owned by us and 12 additional communities previously owned by Silverado. The transaction took advantage of the structure authorized by the REIT Investment Diversification and Empowerment Act of 2007 (RIDEA). The results of operations for this partnership have been included in our consolidated results of operations beginning as of January 1, 2011 and are a component of our senior housing operating segment. Consolidation is based on a combination of ownership interest and operational decision-making control authority.

In conjunction with the formation of the partnership, we contributed \$163,368,000 of cash and the six properties previously owned by us. Silverado contributed the remaining 12 properties to the partnership and the secured debt relating to these properties in exchange for their 4.6% interest in the partnership. The six properties are recorded at their historical carrying values and the noncontrolling interest was established based on such values. The difference between the fair value of the consideration received relating to these properties and the historical allocation of the 4.6% noncontrolling interest was recorded in capital in excess of par value. The total purchase price for the 12 communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with the company's accounting policies. Such allocations have not been finalized as we await final asset valuations and, as such, the allocation of the purchase consideration included in the accompanying Consolidated Balance Sheet at March 31, 2011 is preliminary and subject to adjustment. The 4.6% noncontrolling interest relating to the acquired 12 properties is also reflected at estimated fair value. The weighted average useful life of the acquired intangibles was 6.2 years as of March 31, 2011. The following table presents the

preliminary allocation of the purchase price to assets acquired and liabilities assumed, based on their estimated fair values (in thousands):

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HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Land and land improvements	\$ 11,170
Buildings and improvements	173,841
Acquired lease intangibles	19,305
Investment in unconsolidated subsidiary	14,960
Cash and cash equivalents	4,084
Total assets acquired	223,360
Secured debt	60,667
Total liabilities assumed	60,667
Capital in excess of par	6,017
Noncontrolling interests	7,836
Net assets acquired	\$ 148,840

Benchmark Partnership

During the three months ended March 31, 2011, we completed the formation of our partnership with Benchmark Senior Living to own and operate a portfolio of 34 senior housing communities located in New England. We own a 95% partnership interest and Benchmark owns the remaining 5% interest and continues to manage the communities. The 34 communities included in the partnership were previously owned by The GPT Group and Benchmark. The transaction took advantage of the structure authorized by RIDEA. The results of operations for this partnership have been included in our consolidated results of operations beginning as of March 28, 2011 and are a component of our senior housing operating segment. Consolidation is based on a combination of ownership interest and operational decision-making control authority.

In conjunction with the formation of the partnership, we contributed \$380,278,000 of cash and the partnership assumed the secured debt relating to these properties. Benchmark contributed the 34 properties to the partnership and the secured debt relating to these properties in exchange for their 5% interest in the partnership. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with the company's accounting policies. Such allocations have not been finalized as we await final asset valuations and, as such, the allocation of the purchase consideration included in the accompanying Consolidated Balance Sheet at March 31, 2011 is preliminary and subject to adjustment. The 5% noncontrolling interest relating to the acquired properties is also reflected at estimated fair value. The weighted average useful life of the acquired intangibles was approximately 1.5 years as of March 31, 2011. The following table presents the preliminary allocation of the purchase price to assets acquired and liabilities assumed, based on their estimated fair values (in thousands):

Land and land improvements	\$ 60,440
Buildings and improvements	792,394
Acquired lease intangibles	68,980
Cash and cash equivalents	28,258
Restricted cash	5,451
Total assets acquired	955,523
Secured debt	524,989
Accrued expenses and other liabilities	17,412
Entrance fee liability	13,269

Total liabilities assumed	555,670
Noncontrolling interests	19,575
Net assets acquired	\$ 380,278

Real Property Investment Activity

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

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HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended			
	March 31, 2011		March 31, 2010	
	Properties	Amount	Properties	Amount
Real property acquisitions:				
Senior housing operating	46	\$ 1,126,130		\$
Senior housing triple-net	7	113,364		
Medical facilities			17	223,152
Land parcels	1	9,396		
Total acquisitions	54	1,248,890	17	223,152
Less: Assumed debt		(592,711)		(108,244)
Assumed other items, net		(71,788)		(31,048)
Cash disbursed for acquisitions		584,391		83,860
Construction in progress additions:				
Senior housing triple-net		31,893		27,445
Medical facilities		82,590		54,597
Total construction in progress additions		114,483		82,042
Less: Capitalized interest		(4,665)		(7,076)
Accruals ⁽¹⁾		(19,130)		(4,475)
Cash disbursed for construction in progress		90,688		70,491
Capital improvements to existing properties		9,598		7,460
Total cash invested in real property		\$ 684,677		\$ 161,811

(1) Represents non-cash accruals for amounts to be paid in future periods relating to properties that converted in the period noted above.

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

	Three Months Ended	
	March 31, 2011	March 31, 2010
Development projects:		
Senior housing triple-net	\$	\$ 149,075
Medical facilities	105,940	13,652
Total development projects	105,940	162,727
Expansion projects	11,524	1,298
Total construction in progress conversions	\$ 117,464	\$ 164,025

Transaction costs for the three months ended March 31, 2011 primarily represent costs incurred with the Genesis (see Note 18), Silverado and Benchmark transactions (including due diligence costs, fees for legal and valuation services, and termination of a pre-existing relationship computed based on the fair value of the assets acquired), lease termination fees and costs incurred in connection with the new property acquisitions.

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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):

	March 31, 2011	December 31, 2010
Assets:		
In place lease intangibles	\$ 270,121	\$ 182,030
Above market tenant leases	24,084	24,089
Below market ground leases	46,992	46,992
Lease commissions	6,423	4,968
Gross historical cost	347,620	258,079
Accumulated amortization	(64,455)	(49,145)
Net book value	\$ 283,165	\$ 208,934
Weighted-average amortization period in years	15.5	18.2
Liabilities:		
Below market tenant leases	\$ 57,127	\$ 57,261
Above market ground leases	5,020	5,020
Gross historical cost	62,147	62,281
Accumulated amortization	(17,366)	(15,992)
Net book value	\$ 44,781	\$ 46,289
Weighted-average amortization period in years	12.6	14.0

5. Dispositions, Assets Held for Sale and Discontinued Operations

During the three months ended March 31, 2011, we sold 14 senior housing triple-net properties for net gains of \$26,156,000. At March 31, 2011, we had one medical facility and 18 senior housing triple-net facilities that satisfied the requirements for held for sale treatment and such properties were properly recorded at the lesser of their estimated fair values less costs to sell or carrying values. During the three months ended March 31, 2011, we recorded an impairment charge of \$202,000 related to two senior housing triple-net facilities to adjust the carrying values to estimated fair values less costs to sell based on current sales price expectations. The following is a summary of our real property disposition activity for the periods presented (in thousands):

	Three Months Ended	
	March 31, 2011	March 31, 2010
Real property dispositions:		
Senior housing triple-net	\$ 17,892	\$ 25,097
Medical facilities		6,244
Total dispositions	17,892	31,341

Add: Gain on sales of real property	26,156		6,718
Proceeds from real property sales	\$ 44,048	\$	38,059

We have reclassified the income and expenses attributable to all properties sold and attributable to properties held for sale at March 31, 2011 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):

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HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Rental income	\$ 2,404	\$ 8,774
Expenses:		
Interest expense	433	1,560
Property operating expenses	829	1,207
Provision for depreciation	1,292	2,929
Income (loss) from discontinued operations, net	\$ (150)	\$ 3,078

6. Real Estate Loans Receivable

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

	March 31, 2011			Three Months Ended March 31, 2010		
	Senior Housing Triple-net	Medical Facilities	Totals	Senior Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 11,807	\$	\$ 11,807	\$ 634	\$	\$ 634
Draws on existing loans	8,824	2,481	11,305	10,517		10,517
Net cash advances on real estate loans	20,631	2,481	23,112	11,151		11,151
Receipts on real estate loans receivable:						
Loan payoffs	7,607		7,607	1,599		1,599
Principal payments on loans	2,653	2,081	4,734	3,067		3,067
Total receipts on real estate loans	10,260	2,081	12,341	4,666		4,666
Net advances (receipts) on real estate loans	\$ 10,371	\$ 400	\$ 10,771	\$ 6,485	\$	\$ 6,485

We recorded \$248,000 of provision for loan losses during the three months ended March 31, 2011, resulting in an allowance for loan losses of \$1,524,000 relating to real estate loans with outstanding balances of \$9,478,000, all of which were on non-accrual status at March 31, 2011.

7. Investments in Unconsolidated Joint Ventures

During the six months ended June 30, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located in University Park in Cambridge, MA, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. Six buildings closed on February 22, 2010 and the seventh closed on June 30, 2010. The portfolio is 100% leased. In

connection with these transactions, we invested \$174,692,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture was approximately \$156,729,000 with weighted-average interest rates of 7.1%. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$12,992,000 at March 31, 2011 is primarily attributable to real estate and related intangible assets and will be amortized over the life of the related properties and included in the reported amount of income from unconsolidated joint ventures.

In December 2010, we entered into a strategic joint venture relationship with a national medical office building company. In connection with this transaction, we invested \$21,321,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture was approximately \$24,609,000 with weighted-average interest rates of 6.06%. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$1,531,000 at March 31, 2011 is primarily attributable to real estate and related intangible assets and will be amortized over the life of the related properties and included in the reported amount of income from unconsolidated joint ventures.

In addition, in January 2011, we completed the formation of a partnership with Silverado Senior Living, Inc. See Note 3 for additional information.

The results of operations for these investments have been included in our consolidated results of operations from the date of acquisition by the joint venture and are reflected in our income statement as income from unconsolidated joint ventures.

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HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

8. Customer Concentration

The following table summarizes certain information about our customer concentration as of March 31, 2011 (dollars in thousands):

	Number of Properties ⁽²⁾	Total Investment ⁽²⁾	Percent of Investment ⁽³⁾
Concentration by investment: ⁽¹⁾			
Benchmark Senior Living	34	\$ 923,506	9%
Merrill Gardens LLC	38	720,947	7%
Brandywine Senior Living, LLC	19	608,847	6%
Senior Living Communities, LLC	12	601,303	6%
Senior Star Living	10	461,969	5%
Remaining portfolio	601	6,563,882	67%
Totals	714	\$9,880,454	100%

(1) All of our top five customers are in our senior housing operating segment, except for Brandywine and Senior Living, which are in our senior housing triple-net segment.

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

(3) Investments with our top five customers comprised 32% of total investments at December 31, 2010.

9. Borrowings Under Line of Credit Arrangement and Related Items

At March 31, 2011, we had an unsecured line of credit arrangement with a consortium of sixteen banks in the amount of \$1,150,000,000. On January 24, 2011, we provided notice to KeyBank National Association, as administrative agent, of our desire to extend the line of credit. Under the terms of the loan agreement, we had the right to extend the revolving line of credit for one year if we were in compliance with all covenants and paid an extension fee of \$1,725,000. As a result of the extension, the line of credit will now expire on August 6, 2012. Borrowings under the agreement 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 (0.85% at March 31, 2011). The applicable margin is based on certain of our debt ratings and was 0.6% at March 31, 2011. 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 0.15% at March 31, 2011. We also pay an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement.

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

	Three Months Ended March 31,	
	2011	2010
Balance outstanding at quarter end	\$	\$425,000
Maximum amount outstanding at any month end	\$495,000	\$425,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$319,222	\$283,111
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.59%	1.47%

10. Senior Unsecured Notes and Secured Debt

We have \$4,427,850,000 of senior unsecured notes with annual stated interest rates ranging from 3.00% to 8.00%. The carrying amounts of the senior unsecured notes represent the par value of \$4,464,930,000 adjusted for any unamortized premiums or discounts and other basis adjustments related to hedging the debt with derivative instruments. See Note 11 for further discussion regarding derivative instruments.

During the three months ended December 31, 2006, we issued \$345,000,000 of 4.75% senior unsecured convertible notes due December 2026. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of common stock at an initial conversion rate of 20.8833 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$47.89 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of December 1, 2011, December 1, 2016 and December 1, 2021, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. During the three months ended March 31, 2009, we extinguished \$5,000,000 of these notes and recognized a gain of

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\$446,000. During the six months ended June 30, 2010, we extinguished \$214,412,000 of these notes, recognized a loss of \$8,837,000 and paid \$18,552,000 to reacquire the equity component of convertible debt. As of March 31, 2011, we had \$125,588,000 of these notes outstanding.

In July 2007, we issued \$400,000,000 of 4.75% senior unsecured convertible notes due July 2027. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of our common stock at an initial conversion rate of 20.0000 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$50.00 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of July 15, 2012, July 15, 2017 and July 15, 2022, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. During the three months ended March 31, 2009, we extinguished \$5,000,000 of these notes and recognized a gain of \$594,000. During the six months ended June 30, 2010, we extinguished \$226,914,000 of these notes, recognized a loss of \$16,235,000 and paid \$21,062,000 to reacquire the equity component of convertible debt. As of March 31, 2011, we had \$168,086,000 of these notes outstanding.

During the year ended December 31, 2010, we issued \$494,403,000 of 3.00% senior unsecured convertible notes due December 2029. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of common stock at an initial conversion rate of 19.5064 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$51.27 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of December 1, 2014, December 1, 2019 and December 1, 2024, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. In connection with this issuance, we recognized \$29,925,000 of equity component of convertible debt.

During the three months ended June 30, 2010, we issued \$450,000,000 of 6.125% senior unsecured notes due 2020, generating net proceeds of \$446,328,000. During the three months ended September 30, 2010, we issued \$450,000,000 of 4.70% senior unsecured notes due 2017, generating net proceeds of \$445,768,000. During the three months ended March 31, 2011, we issued \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041, generating net proceeds of \$1,381,086,000.

We have secured debt totaling \$1,711,973,000, collateralized by owned properties, with annual interest rates ranging from 3.86% to 10.00%. The carrying amounts of the secured debt represent the par value of \$1,691,706,000 adjusted for any unamortized fair value adjustments on loan assumptions. The carrying values of the properties securing the debt totaled \$2,807,594,000 at March 31, 2011. During the three months ended March 31, 2010, we assumed \$106,140,000 of first mortgage loans principal with an average rate of 7.35% secured by 17 medical office buildings. During the three months ended March 31, 2011, we assumed \$563,829,000 of first mortgage loans principal with an average rate of 5.412% secured by 27 senior housing properties.

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 March 31, 2011, we were in compliance with all of the covenants under our debt agreements.

At March 31, 2011, the annual principal payments due on these debt obligations are as follows (in thousands):

	Senior Unsecured Notes ⁽¹⁾	Secured Debt ⁽¹⁾	Totals
2011	\$	\$ 19,761	\$ 19,761

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2012	76,853	185,766	262,619
2013	300,000	105,111	405,111
2014		184,690	184,690
2015	250,000	164,793	414,793
Thereafter	3,838,077	1,031,585	4,869,662
Totals	\$ 4,464,930	\$ 1,691,706	\$ 6,156,636

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

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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. Derivatives are recorded at fair value on the balance sheet as assets or liabilities. The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values of our derivatives are estimated by pricing models that consider the forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future.

The following is a summary of the fair value of our derivative instruments (dollars in thousands):

	Balance Sheet Location	Fair Value	
		March 31, 2011	December 31, 2010
Cash flow hedge interest rate swaps	Other liabilities	\$379	\$ 482
<i>Cash Flow Hedges</i>			

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. Approximately \$1,983,000 of losses, which are included in accumulated other comprehensive income (AOCI), are expected to be reclassified into earnings in the next 12 months.

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

	Location	Three Months Ended	
		March 31, 2011	March 31, 2010
Gain (loss) on interest rate swap recognized in OCI (effective portion)	n/a	\$892	\$ (2,054)
Gain (loss) reclassified from AOCI into income (effective portion)	Interest expense	410	(804)
Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	Realized loss		

On August 7, 2009, we entered into an interest rate swap (the August 2009 Swap) for a total notional amount of \$52,198,000 to hedge seven years of interest payments associated with long-term LIBOR based borrowings. This swap was terminated on September 30, 2010 for a cash payment of \$6,645,000 which has been deferred and included as a component of accumulated other comprehensive income. The effective portion is being amortized over the remaining term of the original swap as an adjustment to the yield on our LIBOR-based debt. The August 2009 Swap had an effective date of August 12, 2009 and a maturity date of September 1, 2016. The August 2009 Swap had the economic effect of fixing \$52,198,000 at 3.93% plus a credit spread for seven years. The August 2009 Swap had been designated as a cash flow hedge and we expected it to be highly effective at offsetting changes in cash flows of interest payments on \$52,198,000 of long-term debt due to changes in the LIBOR swap rate.

On September 28, 2009, we entered into an interest rate swap (the September 2009 Swap) for a total notional amount of \$48,155,000 to hedge seven years of interest payments associated with long-term LIBOR based borrowings. This swap was terminated on September 30, 2010 for a cash payment of \$4,365,000 which has been deferred and included as a component of accumulated other comprehensive income. The effective portion is being

amortized over the remaining term of the original swap as an adjustment to the yield on our LIBOR-based debt. The September 2009 Swap had an effective date of September 30, 2009 and a maturity date of October 1, 2016. The September 2009 Swap had the economic effect of fixing \$48,155,000 at 3.2675% plus a credit spread for seven years. The September 2009 Swap had been designated as a cash flow hedge and we expected it to be highly effective at offsetting changes in cash flows of interest payments on \$48,155,000 of long-term debt due to changes in the LIBOR swap rate.

On December 31, 2010, we assumed an interest rate swap (the December 2010 Swap) for a total notional amount of \$12,650,000 to hedge interest payments associated with long-term LIBOR based borrowings. The December 2010 Swap has an effective date of December 31, 2010 and a maturity date of December 31, 2013. The December 2010 Swap has the economic effect of fixing \$12,650,000

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at 5.50% plus a credit spread through the swap's maturity. In January 2011, the December 2010 Swap was designated as a cash flow hedge and we expect it to be highly effective at offsetting changes in cash flows of interest payments on \$12,650,000 of long-term debt due to changes in the LIBOR swap rate.

Fair Value Hedges

For derivative instruments that are designated as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged risk are recognized in current earnings. There were no outstanding fair value hedges at March 31, 2011 or December 31, 2010.

12. Commitments and Contingencies

We have two outstanding letters of credit issued for the benefit of certain insurance companies that provide workers' compensation insurance to one of our tenants. Our obligation to provide the letters of credit terminates in 2013. At March 31, 2011, our obligation under the letters of credit was \$4,200,000.

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide liability and property insurance to one of our tenants. Our obligation to provide the letter of credit terminates in 2013. At March 31, 2011, our obligation under the letter of credit was \$1,000,000.

We have an outstanding letter of credit issued for the benefit of a city in Wisconsin that secures the completion and installation of certain public improvements by one of our tenants in connection with the development of a property. Our obligation to provide the letter of credit terminates in October 2013. At March 31, 2011, our obligation under the letter of credit was \$215,000.

We have an outstanding letter of credit issued for the benefit of a village in Illinois that secures the completion and installation of certain public improvements by one of our tenants in connection with the development of a property. Our obligation to provide the letter of credit terminates in August 2011. At March 31, 2011, our obligation under the letter of credit was \$67,932.

At March 31, 2011, we had outstanding construction in process of \$353,812,000 for leased properties and were committed to providing additional funds of approximately \$193,552,000 to complete construction. At March 31, 2011, we had contingent purchase obligations totaling \$30,989,000. These contingent purchase obligations relate to unfunded capital improvement obligations. 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 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. One lease related to a senior housing triple-net facility contains a bargain purchase option and has been classified as a capital lease. At March 31, 2011, we had operating lease obligations of \$230,190,000 relating to certain ground leases and company office space. We incurred rental expense relating to company office space of \$515,000 for the three months ended March 31, 2011 as compared to \$333,000 for the same period in 2010. Regarding the 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 March 31, 2011, aggregate future minimum rentals to be received under these noncancelable subleases totaled \$31,980,000.

At March 31, 2011, future minimum lease payments due under operating and capital leases are as follows (in thousands):

	Operating Leases	Capital Leases⁽¹⁾
2011	\$ 4,714	\$ 85
2012	5,324	136
2013	5,334	163
2014	5,355	193

2015		5,101		8,236
Thereafter		204,362		
Totals		\$ 230,190	\$	8,813

(1) Related to gross assets of \$17,815,000 recorded in real property.

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

	March 31, 2011	December 31, 2010
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	25,724,854	11,349,854
Outstanding shares	25,724,854	11,349,854
Common Stock, \$1.00 par value:		
Authorized shares	225,000,000	225,000,000
Issued shares	176,948,234	147,381,191
Outstanding shares	176,619,623	147,097,381

Preferred Stock. During the three months ended March 31, 2010, certain holders of our Series G Cumulative Convertible Preferred Stock converted 23,986 shares into 17,166 shares of our common stock, leaving 375,727 of such shares outstanding at March 31, 2010. The remaining Series G shares were subsequently converted into common shares on or prior to September 30, 2010. During the three months ended March 31, 2011, we issued 14,375,000 of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock. These shares have a liquidation value of \$50.00 per share. Dividends are payable quarterly in arrears. The Series I preferred stock is not redeemable by us. The preferred shares are convertible, at the holder's option, into 0.8460 shares of common stock (equal to an initial conversion price of approximately \$59.10).

Common Stock. The following is a summary of our common stock issuances during the three months ended March 31, 2011 and 2010 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
2010 Dividend reinvestment plan issuances	385,875	\$ 42.00	\$ 16,208	\$ 16,208
2010 Option exercises	42,287	37.43	1,583	1,583
2010 Totals	428,162		\$ 17,791	\$ 17,791
March 2011 public issuance	28,750,000	\$ 49.25	\$ 1,415,938	\$ 1,358,694
2011 Dividend reinvestment plan issuances	574,652	48.42	27,822	27,822
2011 Option exercises	37,922	42.24	1,602	1,602
2011 Totals	29,362,574		\$ 1,445,362	\$ 1,388,118

Dividends. The following is a summary of our dividend payments (dollars in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2011		March 31, 2010	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 0.6900	\$ 102,040	\$ 0.6800	\$ 84,523
Series D Preferred Stock	0.4922	1,969	0.4922	1,969

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Series E Preferred Stock			0.3750	28
Series F Preferred Stock	0.4766	3,336	0.4766	3,336
Series G Preferred Stock			0.4688	176
Series H Preferred Stock	0.3750	131		
Series I Preferred Stock	0.2257	3,244		
Totals		\$ 110,720		\$ 90,032

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Comprehensive Income

The following is a summary of accumulated other comprehensive income/(loss) as of the dates indicated (in thousands):

	March 31, 2011	December 31, 2010
Unrecognized losses on cash flow hedges	\$ (9,487)	\$ (9,969)
Unrecognized losses on equity investments	(175)	(497)
Unrecognized actuarial losses	(633)	(633)
Totals	\$ (10,295)	\$ (11,099)

The following is a summary of comprehensive income/(loss) for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2011	2010
Unrecognized gains (losses) on cash flow hedges	\$ 482	\$ (1,291)
Unrecognized gains on equity investments	322	90
Total other comprehensive income (loss)	804	(1,201)
Net income attributable to controlling interests	32,052	31,321
Comprehensive income attributable to controlling interests	32,856	30,120
Net and comprehensive income (loss) attributable to noncontrolling interests ⁽¹⁾	(242)	373
Total comprehensive income	\$ 32,614	\$ 30,493

(1) Includes amounts attributable to redeemable noncontrolling interests.

Other Equity

Other equity consists of accumulated option compensation expense which represents the amount of amortized compensation costs related to stock options awarded to employees and directors. Expense, which is recognized as the options vest based on the market value at the date of the award, totaled \$1,039,000 for the three months ended March 31, 2011 as compared to \$973,000 for the same period in 2010.

14. Stock Incentive Plans

Our Amended and Restated 2005 Long-Term Incentive 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 and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan continued to vest 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.

Valuation Assumptions

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Three Months Ended	
	March 31, 2011	March 31, 2010
Dividend yield	5.74%	6.28%
Expected volatility	34.80%	34.08%
Risk-free interest rate	2.87%	3.23%
Expected life (in years)	7.0	7.0
Weighted-average fair value	\$ 9.60	\$ 7.82

The dividend yield represented the dividend yield of our common stock on the dates of grant. Our computation of expected

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volatility was based on historical volatility. The risk-free interest rates used were the 7-year U.S. Treasury Notes yield on the date of grant. The expected life was based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations regarding future employee behavior.

Option Award Activity

The following table summarizes information about stock option activity for the three months ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Aggregate Intrinsic Value (\$000 s)
Stock Options	(000 s)			
Options at beginning of year	1,207	\$ 39.45	8.0	
Options granted	289	49.17		
Options exercised	(38)	36.47		
Options terminated	(5)	41.64		
Options at end of period	1,453	\$ 41.45	7.6	\$ 15,969
Options exercisable at end of period	621	\$ 38.68	6.0	\$ 8,544
Weighted average fair value of options granted during the period		\$ 9.60		

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the quoted price of our common stock for the options that were in-the-money at March 31, 2011. During the three months ended March 31, 2011 and 2010, the aggregate intrinsic value of options exercised under our stock incentive plans was \$789,000 and \$307,000, respectively (determined as of the date of option exercise). Cash received from option exercises under our stock incentive plans was \$1,602,000 for the three months ended March 31, 2011.

As of March 31, 2011, there was approximately \$4,852,000 of total unrecognized compensation cost related to unvested stock options granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of four years. As of March 31, 2011, there was approximately \$17,497,000 of total unrecognized compensation cost related to unvested restricted stock granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of three years.

The following table summarizes information about non-vested stock incentive awards as of March 31, 2011 and changes for the three months ended March 31, 2011:

	Stock Options		Restricted Stock	
	Number of Shares (000 s)	Weighted Average Grant Date Fair Value	Number of Shares (000 s)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	768	\$ 6.19	420	\$ 41.09
Vested	(220)	6.12	(144)	41.85
Granted	289	9.60	241	49.19
Terminated	(5)	6.61	(4)	40.66
Non-vested at March 31, 2011	832	\$ 7.39	513	\$ 44.68

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

	Three Months Ended March 31,	
	2011	2010
Numerator for basic and diluted earnings per share net income attributable to common stockholders	\$ 23,372	\$ 25,812
Denominator for basic earnings per share weighted average shares	154,945	123,270
Effect of dilutive securities:		
Employee stock options	190	105
Non-vested restricted shares	215	415
Convertible senior unsecured notes	135	
Dilutive potential common shares	540	520
Denominator for diluted earnings per share adjusted weighted average shares	155,485	123,790
Basic earnings per share	\$ 0.15	\$ 0.21
Diluted earnings per share	\$ 0.15	\$ 0.21

The diluted earnings per share calculations exclude the dilutive effect of 0 and 381,000 stock options for the three months ended March 31, 2011 and 2010, respectively, because the exercise prices were less 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 2011 calculation as the effect of conversions into common stock was anti-dilutive for that period. The outstanding convertible senior unsecured notes due 2029 were not included in the 2011 calculation as the effect of the conversions into common stock was anti-dilutive for that period.

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 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 publicly available trading prices.

Borrowings Under Unsecured Lines of Credit Arrangements The carrying amount of the unsecured line of credit arrangement 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 publicly available trading prices.

Secured Debt The fair value of fixed rate secured debt is estimated 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.

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

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Mortgage loans receivable	\$ 118,323	\$ 121,119	\$ 109,283	\$ 111,255
Other real estate loans receivable	329,028	329,054	327,297	333,003
Available-for-sale equity investments	1,425	1,425	1,103	1,103
Cash and cash equivalents	2,667,995	2,667,995	131,570	131,570
Financial Liabilities:				
Borrowings under unsecured lines of credit arrangements	\$	\$	\$ 300,000	\$ 300,000
Senior unsecured notes	4,427,850	4,691,831	3,034,949	3,267,638
Secured debt	1,711,973	1,769,075	1,125,906	1,178,081
Interest rate swap agreements	379	379	482	482

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance for financial assets and liabilities was previously adopted as the standard for those assets and liabilities as of January 1, 2008. Additional guidance for non-financial assets and liabilities is effective for fiscal years beginning after November 15, 2008, and was adopted as the standard for those assets and liabilities as of January 1, 2009. The impact of adoption was not significant. 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. Interest rate swap agreements are valued using models that assume a hypothetical transaction to sell the asset or transfer the liability in the principal market for the asset or liability based on market data derived from interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment timing, loss severities, credit risks and default rates.

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.

	Fair Value Measurements as of March 31, 2011			
	Total	Level 1	Level 2	Level 3
Available-for-sale equity investments ⁽¹⁾	\$ 1,425	\$ 1,425	\$	\$
Assets held for sale ⁽²⁾	71,126		71,126	
Interest rate swap agreements ⁽³⁾	(379)		(379)	

Totals	\$ 72,172	\$ 1,425	\$ 70,747	\$
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- (1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date.
- (2) Please see Note 5 for additional information.
- (3) Please see Note 11 for additional information.

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**HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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 on 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 table above. Assets and liabilities that are measured at fair value on a nonrecurring basis include assets acquired and liabilities assumed in business combinations (see Note 3) and asset impairments (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 using 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.

17. Segment Reporting

During the three months ended March 31, 2011, we changed the name of our senior housing and care segment to senior housing triple-net. Additionally, we added a new senior housing operating segment. There was no activity related to this segment for the three months ended March 31, 2010. We invest in senior housing and health care real estate. We evaluate our business and make resource allocations on our three business segments: senior housing triple-net, senior housing operating and medical facilities. Our primary senior housing triple-net properties include skilled nursing facilities, assisted living facilities, independent living/continuing care retirement communities and combinations thereof. Under the senior housing triple-net segment, we invest in senior 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 senior housing operating properties include assisted living facilities and independent living/continuing care retirement communities that are owned and/or operated through RIDEA partnership structures. Our primary medical facility properties include medical office buildings, hospitals and life science buildings. Our medical office buildings are typically leased to multiple tenants and generally require a certain level of property management. Our hospital investments are structured similar to our senior housing triple-net investments. Our life science investments represent investments in an unconsolidated joint venture (see Note 7 for additional information). The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010). There are no intersegment sales or transfers. We evaluate performance based upon net operating income of the combined properties in each segment. 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 net operating income.

Summary information for the reportable segments during the three months ended March 31, 2011 and 2010 is as follows (in thousands and includes amounts from discontinued operations):

					Property	Net	Real Estate	
Rental	Resident	Interest	Other	Total	Operating	Operating	Depreciation/	Total
Income	Fees and Services	Income	Income	Revenues	Expenses	Income ⁽¹⁾	Amortization/Expense	Assets

Three Months Ended
March 31, 2011

Senior housing triple-net	\$ 105,741	\$ 9,378	\$ 507	\$ 115,626	\$	\$ 115,626	\$ 30,956	\$ 2,066	\$ 4,801,976	
Senior housing operating		\$ 71,286		71,286	49,272	22,014	20,131	6,527	2,291,468	
Medical facilities ⁽²⁾	66,321	2,331	1,786	70,438	16,042	54,396	23,681	7,292	3,376,362	
Non-segment/Corporate			531	531		531		43,445	2,788,238	
	\$ 172,062	\$ 71,286	\$ 11,709	\$ 2,824	\$ 257,881	\$ 65,314	\$ 192,567	\$ 74,768	\$ 59,330	\$ 13,258,044

Three Months Ended

March 31, 2010

Senior housing triple-net	\$ 93,238	\$ 8,575	\$ 494	\$ 102,307	\$	\$ 102,307	\$ 26,399	\$ 4,671
Medical facilities ⁽²⁾	50,869	473	271	51,613	13,720	37,893	17,182	5,577
Non-segment/Corporate			231	231		231		19,737
	\$ 144,107	\$ 9,048	\$ 996	\$ 154,151	\$ 13,720	\$ 140,431	\$ 43,581	\$ 29,985

- (1) Net operating income (NOI) is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments and interest expense. 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.
- (2) Excludes income and expense amounts related to properties held in unconsolidated joint ventures. Please see Note 7 for additional information.

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HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

Genesis Acquisition. On April 1, 2011, we completed the acquisition of substantially all of the real estate assets of privately-owned Genesis HealthCare Corporation. The total purchase price of approximately \$2,475,144,000 is comprised of the \$2,400,000,000 cash consideration and the fair value of capital lease obligations totaling approximately \$75,144,000. We expect that substantially the entire purchase price will be allocated to the tangible and intangible assets relating to the 147 properties acquired. Based on the preliminary purchase price allocation, depreciation expense is expected to be approximately \$63,500,000 on an annual basis. We funded the cash consideration and other associated costs of the acquisition primarily through the proceeds of the offerings of common stock, preferred stock and senior unsecured notes completed in March 2011. Effective April 1, 2011, we began leasing the acquired facilities to Genesis pursuant to a master lease. In addition to rent, the triple net master lease requires Genesis to pay all operating costs, utilities, real estate taxes, insurance, building repairs, maintenance costs and all obligations under the ground leases. All obligations under the master lease have been guaranteed by FC-GEN Operations Investment, LLC, which was spun-off by Genesis prior to closing the acquisition. The initial term is fifteen years. Genesis has one option to renew for an additional term of fifteen years. The master lease provides that the base rent for the first year is \$198,000,000 and will increase at least 1.75% but no more than 3.50% (subject to CPI changes) for each of the years two through six during the initial term and at least 1.50% but no more than 3.00% per year thereafter (subject to CPI changes). We expect to recognize rental income based on the minimum rent escalators during the initial term.

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The following discussion and analysis is based primarily on the consolidated financial statements of Health Care REIT, Inc. for the periods presented and should be read together with the notes thereto contained in this Quarterly Report on Form 10-Q. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2010, including factors identified under the headings Business, Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Summary**Company Overview**

Health Care REIT, Inc. is a real estate investment trust (REIT) that has been at the forefront of senior housing and health care real estate since the company was founded in 1970. We are an S&P 500 company headquartered in Toledo, Ohio and our portfolio spans the full spectrum of senior housing and health care real estate, including senior housing communities, skilled nursing facilities, medical office buildings, inpatient and outpatient medical centers and life science facilities. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets. The following table summarizes our portfolio as of March 31, 2011:

Type of Property	Investments (in thousands)	Percentage of Investments	Number of Properties	# Beds/Units or Sq. Ft.	Investment per metric ⁽¹⁾	States
Senior housing triple-net	\$ 3,386,716	32.9%	247	21,794 units	\$181,141 per unit	35
Skilled nursing facilities	1,253,655	12.2%	181	24,220 beds	51,761 per bed	26
Senior housing operating	2,240,442	21.8%	99	9,908 units	226,125 per unit	21
Hospitals	806,902	7.9%	31	1,857 beds	444,928 per bed	13
Medical office buildings ⁽²⁾	2,240,199	21.8%	162	9,047,275 sq. ft.	254 per sq. ft.	28
Life science buildings ⁽²⁾	344,413	3.4%	7		n/a	1
Totals	\$ 10,272,327	100.0%	727			44

(1) Investment per metric was computed by using the total committed investment amount of \$10,465,879,000, which includes net real estate investments, our share of unconsolidated joint venture investments and unfunded construction commitments for which initial funding has commenced which amounted to \$9,880,454,000, \$391,873,000 and \$193,552,000, respectively.

(2) Includes our share of unconsolidated joint venture investments. Please see Note 7 to our unaudited financial statements for additional information.

Health Care Industry

The demand for health care services, and consequently health care properties, is projected to reach unprecedented levels in the near future. The Centers for Medicare and Medicaid Services (CMS) projects that national health expenditures will rise to \$3.5 trillion in 2015 or 18.2% of gross domestic product (GDP). The average annual growth in national health expenditures for 2009 through 2019 is expected to be 6.3%, which is 0.2% faster than pre-health care reform estimates.

While demographics are the primary driver of demand, economic conditions and availability of services contribute to health care service utilization rates. We believe the health care property market may be less susceptible to fluctuations and economic downturns relative to other property sectors. Investor interest in the market remains strong, especially in specific sectors such as medical office buildings, regardless of the current stringent lending environment. As a REIT, we believe we are situated to benefit from any turbulence in the capital markets due to our access to capital.

The total U.S. population is projected to increase by 20.4% through 2030. The elderly population aged 65 and over is projected to increase by 79.2% through 2030. The elderly are an important component of health care utilization, especially independent living services, assisted living services, skilled nursing services, inpatient and outpatient hospital services and physician ambulatory care. Most health care services are provided within a health care facility such as a hospital, a physician's office or a senior housing facility. Therefore, we believe there will be continued demand for companies, such as ours, with expertise in health care real estate.

The following chart illustrates the projected increase in the elderly population aged 65 and over:

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Source: U.S. Census Bureau

Health care real estate investment opportunities tend to increase as demand for health care services increases. We recognize the need for health care real estate as it correlates to health care service demand. Health care providers require real estate to house their businesses and expand their services. We believe that investment opportunities in health care real estate will continue to be present due to:

The specialized nature of the industry, which enhances the credibility and experience of our company;

The projected population growth combined with stable or increasing health care utilization rates, which ensures demand; and

The on-going merger and acquisition activity.

Current Economic and Capital Market Outlook

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which sometimes impact access to and cost of capital. In spite of these challenges, we successfully raised over \$3 billion of debt and equity capital during the first quarter of 2011 in order to fund our attractive investment opportunities. We believe our success in sourcing capital is due to our strategic deal sourcing and the significant growth underlying the health care real estate sector in general.

We will continue to be selective as further income-enhancing acquisition opportunities are pursued. Investment opportunities must adhere to our strict underwriting and risk allocation criteria. In addition, we will continue to monitor the commercial real estate and U.S. credit markets carefully and, if required will make decisions to adjust our business strategy accordingly. See our discussion of Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 for further discussion.

Business Strategy

Our primary objectives are to protect stockholder capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments to stockholders as a result of annual increases in rental and interest income and portfolio growth. To meet these objectives, we invest across the full spectrum of senior housing and health care real estate and diversify our investment portfolio by property type, customer and geographic location.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. These items represent our primary source of liquidity to fund distributions and are dependent upon our obligors' continued ability to make contractual rent and interest payments to us. To the extent that our obligors experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of property and operator/tenant. Our asset management process includes review of monthly financial statements for each property, periodic review of obligor credit, periodic property inspections and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. In monitoring our portfolio, our personnel use a proprietary database to collect and analyze property-specific data. Additionally, we conduct extensive research to ascertain industry trends and risks. Through these asset management and research efforts, we are typically able to intervene at an early stage to address payment risk, and in so doing, support both the collectability of revenue and the value of our investment.

In addition to our asset management and research efforts, we also structure our investments to help mitigate payment risk. Operating leases and loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are

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typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other loans, operating leases or agreements between us and the obligor and its affiliates.

For the three months ended March 31, 2011, rental income, resident fees and services and interest income represented 67%, 28% and 5%, respectively, of total gross revenues (including revenues from discontinued operations). Substantially all of our operating leases are designed with either fixed or contingent escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Our yield on loans receivable depends upon a number of factors, including the stated interest rate, the average principal amount outstanding during the term of the loan and any interest rate adjustments.

Depending upon the availability and cost of external capital, we believe our liquidity is sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and complete construction projects in process. We also anticipate evaluating opportunities to finance future investments. New investments are generally funded from temporary borrowings under our unsecured line of credit arrangement, internally generated cash and the proceeds from sales of real property. Our investments generate internal cash from rent and interest receipts and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under the unsecured line of credit arrangement, has historically been provided through a combination of public and private offerings of debt and equity securities and the incurrence or assumption of secured debt.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under the unsecured line of credit arrangement, public and private offerings of debt and equity securities, proceeds from the sales of real property and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including construction advances), loan advances, property operating expenses and general and administrative expenses. Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. We expect to complete gross new investments of \$4,040,300,000 in 2011, comprised of acquisitions/joint ventures totaling \$3,786,961,000 and funded new development of \$253,339,000. We anticipate the sale of real property and the repayment of loans receivable totaling approximately \$300,000,000 during 2011. It is possible that additional loan repayments or sales of real property may occur in the future. To the extent that loan repayments and real property sales exceed new investments, our revenues and cash flows from operations could be adversely affected. We expect to reinvest the proceeds from any loan repayments and real property sales in new investments. To the extent that new investment requirements exceed our available cash on-hand, we expect to borrow under our unsecured line of credit arrangement. At March 31, 2011, we had \$2,667,995,000 of cash and cash equivalents, \$38,722,000 of restricted cash and \$1,150,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

Key Transactions in 2011

We have completed the following key transactions to date in 2011:

our Board of Directors increased the quarterly cash dividend to \$0.715 per common share, as compared to \$0.69 per common share for 2010, beginning in May 2011. The dividend declared for the quarter ended March 31, 2011 represents the 160th consecutive quarterly dividend payment;

we raised \$3,534,688,000 of equity and unsecured debt capital in March;

we completed \$1,375,404,000 of gross investments and had \$25,499,000 of investment payoffs during the three months ended March 31, 2011; and

we completed the \$2,400,000,000 Genesis acquisition in April.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to operating performance, concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

Operating Performance. We believe that net income attributable to common stockholders (NICS) is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations (FFO) and net operating income (NOI); however, these supplemental measures are not defined by U.S. generally accepted accounting principles (U.S. GAAP). Please refer to the section entitled Non-GAAP Financial Measures for further discussion and reconciliations of FFO and NOI. These earnings measures and their relative per share amounts are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends of our operating performance measures for the periods presented (in thousands, except per share data):

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	Three Months Ended				
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Net income attributable to common stockholders	\$ 25,812	\$ 45,646	\$ 1,124	\$ 34,301	\$ 23,372
Funds from operations	63,087	92,214	41,108	82,670	70,851
Net operating income ⁽¹⁾	143,055	157,415	164,292	175,585	201,084
Per share data (fully diluted):					
Net income attributable to common stockholders	\$ 0.21	\$ 0.37	\$ 0.01	\$ 0.25	\$ 0.15
Funds from operations	0.51	0.74	0.33	0.60	0.46

(1) Includes our share of net operating income from unconsolidated joint ventures.

Concentration Risk. We evaluate our concentration risk in terms of asset mix, investment mix, customer mix and geographic mix. Concentration risk is a valuable measure in understanding what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property. In order to qualify as an equity REIT, at least 75% of our real estate investments must be real property whereby each property, which includes the land, buildings, improvements, intangibles and related rights, is owned by us and leased to a tenant pursuant to a long-term operating lease. Investment mix measures the portion of our investments that relate to our various property types. Customer mix measures the portion of our investments that relate to our top five customers. Geographic mix measures the portion of our investments that relate to our top five states. The following table reflects our recent historical trends of concentration risk for the periods presented:

	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Asset mix:					
Real property	88%	88%	90%	91%	92%
Real estate loans receivable	7%	7%	5%	5%	4%
Joint venture investments	5%	5%	5%	4%	4%
Investment mix: ⁽¹⁾					
Senior housing triple-net	38%	39%	34%	37%	33%
Skilled nursing facilities	22%	21%	18%	14%	12%
Senior housing operating	0%	0%	10%	12%	22%
Hospitals	10%	10%	10%	9%	8%
Medical office buildings	25%	25%	23%	24%	22%
Life science buildings	5%	5%	5%	4%	3%
Customer mix: ⁽¹⁾					
Benchmark Senior Living					9%
Merrill Gardens LLC			10%	8%	7%
Brandywine Senior Living, LLC				7%	6%
Senior Living Communities, LLC	8%	8%	8%	7%	6%
Senior Star Living				5%	5%

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Brookdale Senior Living, Inc.	5%	4%	4%	4%	
Aurora Health Care, Inc.	5%	5%	4%		
Signature Healthcare LLC	4%	4%	4%		
Emeritus Corporation	4%	3%			
Remaining customers	74%	76%	70%	69%	67%
Geographic mix: ⁽¹⁾					
California	9%	9%	11%	10%	10%
Massachusetts	11%	11%	9%	7%	10%
Florida	12%	11%	10%	10%	9%
Texas	10%	10%	9%	8%	8%
Washington			7%	6%	6%
Wisconsin	7%	7%			
Remaining states	51%	52%	54%	59%	57%

(1) Includes our share of unconsolidated joint venture investments.

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Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to book capitalization and debt to market capitalization. The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt. The coverage ratios indicate our ability to service interest and fixed charges (interest, secured debt principal amortization and preferred dividends). We expect to maintain capitalization ratios and coverage ratios sufficient to maintain compliance with our debt covenants. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization (EBITDA) which is discussed in further detail, and reconciled to net income, below in Non-GAAP Financial Measures. Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

	Three Months Ended				
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Debt to book capitalization ratio	43%	46%	45%	49%	48%
Debt to undepreciated book capitalization ratio	39%	41%	41%	45%	45%
Debt to market capitalization ratio	32%	36%	34%	38%	37%
Interest coverage ratio	3.08x	3.48x	2.25x	3.02x	2.75x
Fixed charge coverage ratio	2.44x	2.78x	1.86x	2.51x	2.22x

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in Forward-Looking Statements and Risk Factors and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 under the headings Business, and Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of these risk factors.

Portfolio Update

Net operating income. The primary performance measure for our properties is net operating income (NOI) as discussed below in Non-GAAP Financial Measures. The following table summarizes our net operating income for the periods indicated (in thousands):

	Three Months Ended				
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Net operating income:					
Senior housing triple-net	\$102,307	\$107,620	\$107,535	\$105,008	\$115,626
Senior housing operating Medical facilities ⁽¹⁾	40,517	48,983	4,816	13,569	22,014
Non-segment/corporate	231	812	51,710	55,411	62,913
			231	1,597	531
Net operating income	\$143,055	\$157,415	\$164,292	\$175,585	\$201,084

(1) Includes our share of net operating income from unconsolidated joint ventures.

Payment coverage. Payment coverage of our triple-net operators continues to remain strong. Our overall payment coverage is at 2.07 times. The table below reflects our recent historical trends of portfolio coverage. Coverage data reflects the 12 months ended for the periods presented. CBMF represents the ratio of our customers' earnings before interest, taxes, depreciation, amortization, rent and management fees to contractual rent or interest due us. CAMF represents the ratio of our customers' earnings before interest, taxes, depreciation, amortization and rent (but after imputed management fees) to contractual rent or interest due us.

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	December 31, 2008		December 31, 2009		December 31, 2010	
	CBMF	CAMF	CBMF	CAMF	CBMF	CAMF
Senior housing triple-net	1.49x	1.27x	1.49x	1.28x	1.55x	1.33x
Skilled nursing facilities	2.25x	1.64x	2.29x	1.68x	2.38x	1.76x
Hospitals	2.36x	1.95x	2.39x	2.07x	2.57x	2.24x
Weighted averages	1.97x	1.53x	1.99x	1.57x	2.07x	1.65x

Corporate Governance

Maintaining investor confidence and trust has become increasingly important in today's business environment. Our Board of Directors and management are strongly committed to policies and procedures that reflect the highest level of ethical business practices. Our corporate governance guidelines provide the framework for our business operations and emphasize our commitment to increase stockholder value while meeting all applicable legal requirements. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on our website at www.hcreit.com.

Liquidity and Capital Resources**Sources and Uses of Cash**

Our primary sources of cash include rent and interest receipts, borrowings under the unsecured line of credit arrangement, public and private offerings of debt and equity securities, proceeds from the sales of real property and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below.

The following is a summary of our sources and uses of cash flows (dollars in thousands):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Cash and cash equivalents at beginning of period	\$ 131,570	\$ 35,476	\$ 96,094	271%
Cash provided from operating activities	115,112	92,488	22,624	24%
Cash used in investing activities	(612,705)	(291,863)	(320,842)	110%
Cash provided from financing activities	3,034,018	200,457	2,833,561	1,414%
Cash and cash equivalents at end of period	\$2,667,995	\$ 36,558	\$2,631,437	7,198%

Operating Activities. The change in net cash provided from operating activities is primarily attributable to an increase in net income, excluding gains/losses on sales of properties, depreciation and amortization and debt extinguishment charges. These items are discussed below in Results of Operations. The following is a summary of our straight-line rent and above/below market lease amortization (dollars in thousands):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Gross straight-line rental income	\$ 5,030	\$ 4,453	\$ 577	13%
Cash receipts due to real property sales	(250)		(250)	n/a

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Prepaid rent receipts	(3,362)	(1,738)	(1,624)	93%
Amortization related to below (above) market leases, net	658	487	171	35%
	\$ 2,076	\$ 3,202	\$ (1,126)	-35%

Gross straight-line rental income represents the non-cash difference between contractual cash rent due and the average rent recognized pursuant to U.S. GAAP for leases with fixed rental escalators, net of collectability reserves. This amount is positive in the first half of a lease term (but declining every year due to annual increases in cash rent due) and is negative in the second half of a lease term. The fluctuation in cash receipts due to real property sales is attributable to the lack of straight-line rent receivable balances on properties sold during the current year. The fluctuation in prepaid rent receipts is primarily due to changes in prepaid rent received at certain construction projects.

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Investing Activities. The changes in net cash used in investing activities are primarily attributable to net changes in real property and real estate loans receivable. The following is a summary of our investment and disposition activities (dollars in thousands):

	March 31, 2011		Three Months Ended			
	Senior Housing Triple-net	Medical Facilities	Totals	Senior Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 11,807	\$	\$ 11,807	\$ 634	\$	\$ 634
Draws on existing loans	8,824	2,481	11,305	10,517		10,517
Net cash advances on real estate loans	20,631	2,481	23,112	11,151		11,151
Receipts on real estate loans receivable:						
Loan payoffs	7,607		7,607	1,599		1,599
Principal payments on loans	2,653	2,081	4,734	3,067		3,067
Total receipts on real estate loans	10,260	2,081	12,341	4,666		4,666
Net advances (receipts) on real estate loans	\$ 10,371	\$ 400	\$ 10,771	\$ 6,485	\$	\$ 6,485

	Three Months Ended			
	March 31, 2011		March 31, 2010	
	Properties	Amount	Properties	Amount
Real property acquisitions:				
Senior housing operating	46	\$ 1,126,130		\$
Senior housing triple-net	7	113,364		
Medical office buildings			17	223,152
Land parcels	1	9,396		
Total acquisitions	54	1,248,890	17	223,152
Less: Assumed debt		(592,711)		(108,244)
Assumed other items, net		(71,788)		(31,048)
Cash disbursed for acquisitions		584,391		83,860
Construction in progress cash additions		90,688		70,491
Capital improvements to existing properties		9,598		7,460
Total cash invested in real property		684,677		161,811

Real property dispositions:

Senior housing triple-net	14	17,892	2	25,097
Medical facilities			2	6,244
Total dispositions	14	17,892	4	31,341
Less: Gains (losses) on sales of real property		26,156		6,718
Proceeds from real property sales		44,048		38,059
Net cash investments in real property	40	\$ 640,629	13	\$ 123,752

Financing Activities. The changes in net cash provided from or used in financing activities are primarily attributable to changes related to our long-term debt arrangements, proceeds from the issuance of common stock and dividend payments.

For the three months ended March 31, 2011, we had a net decrease of \$300,000,000 on our unsecured line of credit arrangement as compared to a net increase of \$285,000,000 for the same period in 2010. The change in our senior unsecured notes is due to (i) the issuance of \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041 in March 2011; (ii) the issuance of \$342,394,000 of convertible senior unsecured notes in March 2010; and (iii) the repurchase of \$302,118,000 of convertible senior unsecured notes in March 2010.

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

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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. We cannot redeem the March and June 2010 convertible senior unsecured notes prior to December 1, 2014 unless such redemption is necessary to preserve our status as a REIT. However, on or after December 1, 2014, we may from time to time at our option redeem those notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the notes we redeem, plus any accrued and unpaid interest to, but excluding, the redemption date. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

The following is a summary of our common stock issuances for the three months ended March 31, 2011 and 2010 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
2010 Dividend reinvestment plan issuances	385,875	\$ 42.00	\$ 16,208	\$ 16,208
2010 Option exercises	42,287	37.43	1,583	1,583
2010 Totals	428,162		\$ 17,791	\$ 17,791
March 2011 public issuance	28,750,000	\$ 49.25	\$ 1,415,938	\$ 1,358,694
2011 Dividend reinvestment plan issuances	574,652	48.42	27,822	27,822
2011 Option exercises	37,922	42.24	1,602	1,602
2011 Totals	29,362,574		\$ 1,445,362	\$ 1,388,118

In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income (including 100% of capital gains) to our stockholders. The increase in dividends is primarily attributable to an increase in our common shares outstanding. The following is a summary of our dividend payments (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2011		March 31, 2010	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 0.6900	\$ 102,040	\$ 0.6800	\$ 84,523
Series D Preferred Stock	0.4922	1,969	0.4922	1,969
Series E Preferred Stock			0.3750	28
Series F Preferred Stock	0.4766	3,336	0.4766	3,336
Series G Preferred Stock			0.4688	176
Series H Preferred Stock	0.3750	131		
Series I Preferred Stock	0.2257	3,244		
Totals		\$ 110,720		\$ 90,032

Off-Balance Sheet Arrangements

During the three months ended March 31, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). In connection with this transaction, we invested \$174,692,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture was approximately \$156,729,000 with weighted-average interest rates of 7.1%. Also during the year

ended December 31, 2010, we entered into a joint venture investment with a national medical office building company. In connection with this transaction, we invested \$21,321,000 of cash which is recorded as an equity investment on our balance sheet. Our share of non-recourse debt was approximately \$24,609,000 with weighted average interest rates of 6.06%. Please see Note 7 to our unaudited consolidated financial statements for additional information.

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on the general trend in interest rates at the applicable dates, our perception of the future volatility of interest rates and our relative levels of variable rate debt and variable rate investments. Please see Note 11 to our unaudited consolidated financial statements for additional information.

At March 31, 2011, we had five outstanding letter of credit obligations totaling \$5,482,932 and expiring between 2011 and 2013. Please see Note 12 to our unaudited consolidated financial statements for additional information.

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Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of March 31, 2011 (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		2011	2012-2013	2014-2015	Thereafter
Unsecured line of credit arrangement	\$	\$	\$	\$	\$
Senior unsecured notes ⁽¹⁾	4,464,930		376,853	250,000	3,838,077
Secured debt ⁽¹⁾	1,691,706	19,761	290,877	349,483	1,031,585
Contractual interest obligations	3,214,516	234,185	630,924	545,119	1,804,288
Capital lease obligations	8,813	85	299	8,429	
Operating lease obligations	230,190	4,714	10,658	10,456	204,362
Purchase obligations	2,624,541	2,510,882	95,613	18,046	
Other long-term liabilities	4,890	1,614		866	2,410
Total contractual obligations	\$ 12,239,586	\$ 2,771,241	\$ 1,405,224	\$ 1,182,399	\$ 6,880,722

(1) Amounts represent principal amounts due and do not reflect unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

At March 31, 2011, we had an unsecured line of credit arrangement with a consortium of sixteen banks in the amount of \$1.15 billion, which is scheduled to expire on August 6, 2012. Borrowings under the agreement 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 (0.85% at March 31, 2011). The applicable margin is based on certain of our debt ratings and was 0.6% at March 31, 2011. 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 0.15% at March 31, 2011. We also pay an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement.

We have \$4,464,930,000 of senior unsecured notes principal outstanding with fixed annual interest rates ranging from 3.00% to 8.00%, payable semi-annually. Total contractual interest obligations on senior unsecured notes totaled \$2,560,151,700 at March 31, 2011. A total of \$788,077,000 of our senior unsecured notes are convertible notes that also contain put features. Please see Note 10 to our unaudited consolidated financial statements for additional information.

Additionally, we have secured debt with total outstanding principal of \$1,691,706,000, collateralized by owned properties, with fixed annual interest rates ranging from 3.86% to 10.00%, payable monthly. The carrying values of the properties securing the debt totaled \$2,807,594,000 at March 31, 2011. Total contractual interest obligations on secured debt totaled \$654,363,962 at March 31, 2011.

At March 31, 2011, we had operating lease obligations of \$230,190,000 relating primarily to ground leases at certain of our properties and office space leases. One lease related to a senior housing triple-net facility contains a bargain purchase option and has been classified as a capital lease.

Purchase obligations include \$2,400,000,000 representing the cash portion of the Genesis HealthCare Corporation acquisition price. This acquisition was completed on April 1, 2011. See Note 18 to our consolidated financial statements for additional information. Purchase obligations also include unfunded construction commitments and contingent purchase obligations. At March 31, 2011, we had outstanding construction financings of \$353,812,000 for leased properties and were committed to providing additional financing of approximately \$193,552,000 to complete construction. At March 31, 2011, we had contingent purchase obligations totaling \$30,989,000. These contingent purchase obligations relate to unfunded capital improvement obligations. Upon funding, amounts due from the tenant are increased to reflect the additional investment in the property.

Other long-term liabilities relate to our Supplemental Executive Retirement Plan (SERP) and a non-compete agreement. We have a SERP, a non-qualified defined benefit pension plan, which provides certain executive officers with supplemental deferred retirement benefits. The SERP provides an opportunity for participants to receive retirement benefits that cannot be paid under our tax-qualified plans because of the restrictions imposed by ERISA and the Internal Revenue Code of 1986, as amended. Benefits are based on compensation and length of service and the SERP is unfunded. We expect to contribute \$1,500,000 to the SERP during the 2011 fiscal year. Benefit payments are expected to total \$2,367,000 during the next five fiscal years and \$2,410,000 thereafter. We use a December 31 measurement date for the SERP. The accrued liability on our balance sheet for the SERP was \$4,230,000 and \$4,066,000 at March 31, 2011 and December 31, 2010, respectively.

In connection with the Windrose merger, we entered into a consulting agreement with Frederick L. Farrar, which expired in

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December 2008. We entered into a new consulting agreement with Mr. Farrar in December 2008, which expired in December 2009. Mr. Farrar agreed not to compete with us for a period of two years following the expiration of the agreement. In exchange for complying with the covenant not to compete, Mr. Farrar receives eight quarterly payments of \$37,500, with the first payment to be made on the date of expiration of the agreement. The first payment to Mr. Farrar was made in January 2010 and the final payment will be made in September 2011.

Capital Structure

As of March 31, 2011, we had total equity of \$6,770,603,000 and a total outstanding debt balance of \$6,139,823,000, which represents a debt to total book capitalization ratio of 48%. Our ratio of debt to market capitalization was 37% at March 31, 2011. For the three months ended March 31, 2011, our interest coverage ratio was 2.75x and our fixed charge coverage ratio was 2.22x. Also, at March 31, 2011, we had \$2,667,995,000 of cash and cash equivalents, \$38,722,000 of restricted cash and \$1,150,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

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 March 31, 2011, we were in compliance with all of the covenants under our debt agreements. Please refer to the section entitled "Non-GAAP Financial Measures" for further discussion. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our unsecured line of credit arrangement, the ratings on our senior unsecured notes are used to determine the fees and interest charged.

We plan to manage the company to maintain compliance with our debt covenants and with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

On May 7, 2009, we filed an open-ended automatic or "universal" shelf registration statement with the Securities and Exchange Commission covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depositary shares, warrants and units. As of April 30, 2011, we had an effective registration statement on file in connection with our enhanced dividend reinvestment plan under which we may issue up to 10,000,000 shares of common stock. As of April 30, 2011, 7,829,813 shares of common stock remained available for issuance under this registration statement. We have entered into separate Equity Distribution Agreements with UBS Securities LLC, RBS Securities Inc., KeyBanc Capital Markets Inc. and Credit Agricole Securities (USA) Inc. relating to the offer and sale from time to time of up to \$250,000,000 aggregate amount of our common stock ("Equity Shelf Program"). As of April 30, 2011, we had \$119,985,000 of remaining capacity under the Equity Shelf Program. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our unsecured line of credit arrangement.

Results of Operations

Our primary sources of revenue include rent and interest. Our primary expenses include interest expense, depreciation and amortization, property operating expenses and general and administrative expenses. These revenues and expenses are reflected in our Consolidated Statements of Income and are discussed in further detail below. The following is a summary of our results of operations (dollars in thousands, except per share amounts):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	Amount	%
Net income attributable to common stockholders	\$ 23,372	\$ 25,812	\$ (2,440)	-9%
Funds from operations	70,851	63,087	7,764	12%
EBITDA	166,037	105,344	60,693	58%
Net operating income	201,084	143,055	58,029	41%

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Per share data (fully diluted):

Net income attributable to common stockholders	\$ 0.15	\$ 0.21	\$ (0.06)	-29%
Funds from operations	0.46	0.51	(0.05)	-10%
Interest coverage ratio	2.75x	3.08x	-0.33x	-11%
Fixed charge coverage ratio	2.22x	2.44x	-0.22x	-9%

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We evaluate our business and make resource allocations on our three business segments: senior housing triple-net, senior housing operating and medical facilities. Please see Note 17 to our unaudited consolidated financial statements for additional information.

Senior Housing Triple-net

The following is a summary of our results of operations for the senior housing triple-net segment (dollars in thousands):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Revenues:				
Rental income	\$ 103,337	\$ 85,246	\$ 18,091	21%
Interest income	9,378	8,575	803	9%
Other income	507	494	13	3%
	113,222	94,315	18,907	20%
Expenses:				
Interest expense	1,633	3,165	(1,532)	-48%
Depreciation and amortization	29,664	23,470	6,194	26%
Transaction costs	3,996	5,019	(1,023)	-20%
	35,293	31,654	3,639	11%
Income from continuing operations	77,929	62,661	15,268	24%
Discontinued operations:				
Gain on sales of properties	26,156	5,728	20,428	357%
Impairment of assets	(202)		(202)	n/a
Income from discontinued operations, net	679	3,557	(2,878)	-81%
Discontinued operations, net	26,633	9,285	17,348	187%
Net income attributable to common stockholders	\$ 104,562	\$ 71,946	\$ 32,616	45%

The increase in rental income is primarily attributable to acquisitions and the conversion of newly constructed senior housing triple-net properties subsequent to March 31, 2010 from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the tenant's properties. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If gross operating revenues at our facilities and/or the Consumer Price Index do not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income.

Interest expense for the three months ended March 31, 2011 and 2010 represents \$2,066,000 and \$4,671,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our senior housing triple-net property secured debt principal activity (dollars in thousands):

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 172,862	5.265%	\$ 298,492	5.998%
Debt assumed	6,612	4.590%		0.000%
Principal payments	(694)	5.624%	(1,341)	6.011%
Ending balance	\$ 178,780	5.236%	\$ 297,151	5.997%
Monthly averages	\$ 176,935	5.247%	\$ 297,850	5.998%

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Depreciation and amortization increased primarily as a result of the conversions of newly constructed investment properties subsequent to March 31, 2010. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

Transaction costs for the three months ended March 31, 2011 were incurred in connection with the Genesis transaction and other acquisitions.

During the three months ended March 31, 2011, we sold 14 senior housing triple-net properties. Additionally, at March 31, 2011 we had 18 senior housing triple-net facilities that satisfied the requirements for held for sale treatment. We recorded an impairment charge of \$202,000 related to two of these facilities to adjust the carrying values to estimated fair values less costs to sell based on current sales price expectations. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2010 or held for sale at March 31, 2011 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

	Three Months Ended March 31,	
	2011	2010
Rental income	\$ 2,404	\$ 7,992
Expenses:		
Interest expense	433	1,506
Provision for depreciation	1,292	2,929
Income from discontinued operations, net	\$ 679	\$ 3,557

Senior Housing Operating

As discussed in Note 3 to our consolidated financial statements, we completed two senior housing operating partnerships during the three months ended March 31, 2011. The results of operations for these partnerships have been included in our consolidated results of operations from the dates of acquisition. The senior housing operating partnerships were formed using the structure authorized by the REIT Investment Diversification and Empowerment Act of 2007 (RIDEA). When considering new partnerships utilizing the RIDEA structure, we look for opportunities with best-in-class operators with a strong seasoned leadership team, high-quality real estate in attractive markets, growth potential above the rent escalators in our triple-net lease senior housing portfolio, and alignment of economic interests with our operating partner. Our senior housing operating partnerships offer us the opportunity for external growth because we have the right to fund future senior housing investment opportunities sourced by our operating partners. There were no senior housing operating segment investments prior to September 1, 2010. The following is a summary of our senior housing operating results of operations for the three months ended March 31, 2011 (dollars in thousands):

Revenues:	
Resident fees and services	\$ 71,286
Expenses:	
Interest expense	6,527
Property operating expenses	49,272
Depreciation and amortization	20,131
Transaction costs	32,069
	107,999
	(36,713)

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Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated joint ventures	
Income (loss) from unconsolidated joint ventures	(565)
Net income (loss)	(37,278)
Less: Net income (loss) attributable to noncontrolling interests	(1,407)
Net income (loss) attributable to common stockholders	\$ (35,871)

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Transaction costs for the three months ended March 31, 2011 primarily represent costs incurred with the Silverado and Benchmark transactions (including due diligence costs, fees for legal and valuation services, and termination of a pre-existing relationship computed based on the fair value of the assets acquired), lease termination fees and costs incurred in connection with the new property acquisitions.

Medical Facilities

The following is a summary of our results of operations for the medical facilities segment (dollars in thousands):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Revenues:				
Rental income	\$ 66,321	\$ 50,087	\$ 16,234	32%
Interest income	2,331	473	1,858	393%
Other income	1,786	271	1,515	559%
	70,438	50,831	19,607	39%
Expenses:				
Interest expense	7,292	5,523	1,769	32%
Property operating expenses	15,213	12,513	2,700	22%
Depreciation and amortization	23,681	17,182	6,499	38%
Transaction costs		2,695	(2,695)	-100%
Provision for loan losses	248		248	n/a
	46,434	37,913	8,521	22%
Income from continuing operations before income taxes and income from unconsolidated joint ventures	24,004	12,918	11,086	86%
Income tax (expense) benefit	(111)	(58)	(53)	91%
Income from unconsolidated joint ventures	2,108	768	1,340	174%
Income from continuing operations	26,001	13,628	12,373	91%
Discontinued operations:				
Gain (loss) on sales of properties		990	(990)	-100%
Income (loss) from discontinued operations, net	(829)	(479)	(350)	73%
Discontinued operations, net	(829)	511	(1,340)	n/a
Net income (loss)	25,172	14,139	11,033	78%
Less: Net income (loss) attributable to noncontrolling interests	1,165	373	792	212%
Net income (loss) attributable to common stockholders	\$ 24,007	\$ 13,766	\$ 10,241	74%

The increase in rental income is primarily attributable to the acquisitions and construction conversions of medical facilities subsequent to March 31, 2010 from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index. These escalators are not fixed, so no

straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If the Consumer Price Index does not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. Interest income decreased from the prior period primarily due to a decline in outstanding balances for medical facility real estate loans. Other income is attributable to third party management fee income.

Interest expense for the three months ended March 31, 2011 and 2010 represents \$7,292,000 and \$5,577,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our medical facilities secured debt principal activity (dollars in thousands):

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	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 463,477	6.005%	\$ 314,065	5.677%
Debt assumed		0.000%	106,140	7.352%
Principal payments	(2,924)	6.057%	(1,837)	5.875%
Ending balance	\$ 460,553	5.996%	\$ 418,368	6.101%
Monthly averages	\$ 462,058	5.996%	\$ 366,311	5.919%

The increase in property operating expenses and depreciation and amortization is primarily attributable to acquisitions and construction conversions of new medical facilities for which we incur certain property operating expenses offset by property operating expenses associated with discontinued operations.

Income tax expense is primarily related to third party management fee income.

Income from unconsolidated joint ventures represents our share of net income related to our joint venture investments with Forest City Enterprises (effective February 2010) and a strategic medical office partnership (effective January 2011). The following is a summary of our share of net income from these investments for the periods presented (in thousands):

	Three Months Ended March		Change	
	31, 2011	March 31, 2010	\$	%
Revenues	\$ 12,384	\$ 3,725	\$ 8,659	232%
Operating expenses	3,868	1,101	2,767	251%
Net operating income	8,516	2,624	5,892	225%
Depreciation and amortization	3,133	775	2,358	304%
Interest expense	2,851	923	1,928	209%
Asset management fee	424	158	266	168%
Net income	\$ 2,108	\$ 768	\$ 1,340	174%

At March 31, 2011, we had one medical facility that satisfied the requirements for held for sale treatment. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2010 or held for sale at March 31, 2011 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

	Three Months Ended March 31,	
	2011	2010
Rental income	\$	\$ 782
Expenses:		
Interest expense		54

Property operating expenses	829	1,207
Loss from discontinued operations, net	\$ (829)	\$ (479)

Net income attributable to non-controlling interests primarily relates to certain properties that are consolidated in our operating results but where we have less than a 100% ownership interest.

Non-Segment/Corporate

The following is a summary of our results of operations for the non-segment/corporate activities (dollars in thousands):

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	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Revenues:				
Other income	\$ 531	\$ 231	\$ 300	130%
Expenses:				
Interest expense	43,445	19,737	23,708	120%
General and administrative	17,714	16,821	893	5%
Loss (gain) on extinguishments of debt		18,038	(18,038)	-100%
	61,159	54,596	6,563	12%
Loss from continuing operations before income taxes	(60,628)	(54,365)	(6,263)	12%
Income tax (expense) benefit	(17)	(26)	9	-35%
Net loss	(60,645)	(54,391)	(6,254)	11%
Preferred stock dividends	8,680	5,509	3,171	58%
Net loss attributable to common stockholders	\$ (69,325)	\$ (59,900)	\$ (9,425)	16%

Other income primarily represents income from non-real estate activities such as interest earned on temporary investments of cash reserves.

The following is a summary of our non-segment/corporate interest expense (dollars in thousands):

	Three Months Ended		Change	
	March 31, 2011	March 31, 2010	\$	%
Senior unsecured notes	\$ 44,457	\$ 24,066	\$ 20,391	85%
Secured debt	127	139	(12)	-9%
Unsecured lines of credit	1,271	1,040	231	22%
Capitalized interest	(4,665)	(7,076)	2,411	-34%
SWAP savings	(40)	(40)		0%
Loan expense	2,295	1,608	687	43%
Totals	\$ 43,445	\$ 19,737	\$ 23,708	120%

The change in interest expense on senior unsecured notes is due to the net effect of issuances and extinguishments. The following is a summary of our senior unsecured note principal activity (dollars in thousands):

	Three Months Ended		Three Months Ended	
	March 31, 2011		March 31, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 3,064,930	5.129%	\$ 1,661,853	5.557%

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Debt issued	1,400,000	5.143%	342,394	3.000%
Debt extinguished			(302,118)	4.750%
Ending balance	\$ 4,464,930	5.133%	\$ 1,702,129	5.186%
Monthly averages	\$ 3,414,930	5.166%	\$ 1,671,922	5.462%

During the three months ended September 30, 2009, we completed a \$10,750,000 first mortgage loan secured by a commercial real estate campus. The 10-year debt has a fixed interest rate of 6.37%.

The change in interest expense on the unsecured line of credit arrangement is due primarily to the net effect and timing of draws,

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paydowns and variable interest rate changes. The following is a summary of our unsecured line of credit arrangement (dollars in thousands):

	Three Months Ended March 31,	
	2011	2010
Balance outstanding at quarter end	\$	\$425,000
Maximum amount outstanding at any month end	\$495,000	\$425,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$319,222	\$283,111
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.59%	1.47%

We capitalize certain interest costs associated with funds used to finance the construction of properties owned directly by us. The amount capitalized is based upon the balances outstanding during the construction period using the rate of interest that approximates our cost of financing. Our interest expense is reduced by the amount capitalized.

Please see Note 11 to our unaudited consolidated financial statements for a discussion of our interest rate swap agreements and their impact on interest expense. Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt.

General and administrative expenses as a percentage of consolidated revenues (including revenues from discontinued operations) for the three months ended March 31, 2011 and 2010 were 6.87% and 10.91%, respectively. The change from prior year is primarily related to the increasing revenue base as a result of our senior housing operating partnerships.

The following is a summary of our preferred stock activity (dollars in thousands):

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	11,349,854	7.663%	11,474,093	7.697%
Shares issued	14,375,000	6.500%		0.000%
Shares converted		0.000%	(23,986)	7.500%
Ending balance	25,724,854	7.013%	11,450,107	7.697%
Monthly averages	14,943,604	7.383%	11,462,100	7.697%

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Non-GAAP Financial Measures

We believe that net income, as defined by U.S. GAAP, is the most appropriate earnings measurement. However, we consider FFO to be a useful supplemental measure of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (NAREIT) created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation from net income. FFO, as defined by NAREIT, means net income, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Net operating income (NOI) is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments and interest expense. 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.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. We believe that EBITDA, along with net income and cash flow provided from operating activities, is an important supplemental measure because it provides additional information to assess and evaluate the performance of our operations. We primarily utilize EBITDA to measure our interest coverage ratio, which represents EBITDA divided by total interest, and our fixed charge coverage ratio, which represents EBITDA divided by fixed charges. Fixed charges include total interest, secured debt principal amortization and preferred dividends.

A covenant in our line of credit arrangement contains a financial ratio based on a definition of EBITDA that is specific to that agreement. Failure to satisfy this covenant could result in an event of default that could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. Due to the materiality of this debt agreement and the financial covenant, we have disclosed Adjusted EBITDA, which represents EBITDA as defined above and adjusted for stock-based compensation expense, provision for loan losses and gain/loss on extinguishment of debt. We use Adjusted EBITDA to measure our adjusted fixed charge coverage ratio, which represents Adjusted EBITDA divided by fixed charges on a trailing twelve months basis. Fixed charges include total interest (excluding capitalized interest and non-cash interest expenses), secured debt principal amortization and preferred dividends. Our covenant requires an adjusted fixed charge ratio of at least 1.75 times.

Other than Adjusted EBITDA, our supplemental reporting measures and similarly entitled financial measures are widely used by investors, equity and debt analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. Management uses these financial measures to facilitate internal and external comparisons to our historical operating results and in making operating decisions. Additionally, these measures are utilized by the Board of Directors to evaluate management. Adjusted EBITDA is used solely to determine our compliance with a financial covenant of our line of credit arrangement and is not being presented for use by investors for any other purpose. None of our supplemental measures represent net income or cash flow provided from operating activities as determined in accordance with U.S. GAAP and should not be considered as alternative measures of profitability or liquidity. Finally, the supplemental measures, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies. Multi-period amounts may not equal the sum of the individual quarterly amounts due to rounding.

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The tables below reflect the reconciliation of FFO to net income attributable to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. The provisions for depreciation and amortization include provisions for depreciation and amortization from discontinued operations. Noncontrolling interest amounts represent the noncontrolling interests' share of transaction costs and depreciation and amortization. Unconsolidated joint venture amounts represent our share of unconsolidated joint ventures' depreciation and amortization. Amounts are in thousands except for per share data.

	Three Months Ended				
	March	June 30,	September	December	March 31,
	31,	2010	30,	31,	2011
	2010	2010	2010	2010	
FFO Reconciliation:					
Net income attributable to common stockholders	\$ 25,812	\$ 45,646	\$ 1,124	\$ 34,301	\$ 23,372
Depreciation and amortization	43,581	47,451	49,106	62,406	74,768
Loss (gain) on sales of properties	(6,718)	(3,314)	(10,526)	(15,557)	(26,156)
Noncontrolling interests	(363)	108	(1,292)	(1,200)	(4,160)
Unconsolidated joint ventures	775	2,323	2,696	2,720	3,027
Funds from operations	\$ 63,087	\$ 92,214	\$ 41,108	\$ 82,670	\$ 70,851
Average common shares outstanding:					
Basic	123,270	123,808	125,298	138,126	154,945
Diluted	123,790	124,324	125,842	138,738	155,485
Per share data:					
Net income attributable to common stockholders					
Basic	\$ 0.21	\$ 0.37	\$ 0.01	\$ 0.25	\$ 0.15
Diluted	0.21	0.37	0.01	0.25	0.15
Funds from operations					
Basic	\$ 0.51	\$ 0.74	\$ 0.33	\$ 0.60	\$ 0.46
Diluted	0.51	0.74	0.33	0.60	0.46

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The following tables reflect the reconciliation of NOI for the periods presented. All amounts include amounts from discontinued operations, if applicable. Our share of revenues and expenses from unconsolidated joint ventures are included in medical facilities. Amounts are in thousands.

	March		Three Months Ended		
	31,	June 30,	September	December	March 31,
	2010	2010	30,	31,	2011
			2010	2010	
NOI Reconciliation:					
Total revenues:					
Senior housing triple-net:					
Rental income:					
Senior housing	\$ 52,366	\$ 56,197	\$ 56,162	\$ 55,658	\$ 68,654
Skilled nursing facilities	40,872	41,057	41,496	39,096	37,087
Sub-total	93,238	97,254	97,658	94,754	105,741
Interest income	8,575	8,830	9,179	9,593	9,378
Other income	494	1,536	698	661	507
Total senior housing triple-net	102,307	107,620	107,535	105,008	115,626
Senior housing operating:					
Resident fees and services			12,809	38,197	71,286
Medical facilities:					
Rental income					
Medical office buildings	40,088	42,056	43,758	44,532	54,769
Hospitals	10,781	12,484	13,313	13,494	12,667
Life science buildings	3,725	9,355	10,401	10,521	11,270
Sub-total	54,594	63,895	67,472	68,547	78,706
Interest income	473	505	875	2,826	2,331
Other income	271	302	227	185	1,786
Total medical facilities revenues	55,338	64,702	68,574	71,558	82,823
Corporate other income	231	812	231	1,597	531
Total revenues	157,876	173,134	189,149	216,360	270,266
Property operating expenses:					
Senior triple-net					
Senior housing operating			7,993	24,628	49,272
Medical facilities:					
Medical office buildings	12,992	12,853	13,307	12,936	15,439
Hospitals	728	150	522	352	870
Life science buildings	1,101	2,716	3,035	2,857	3,601
Sub-total	14,821	15,719	16,864	16,145	19,910
Non-segment/corporate					
Total property operating expenses	14,821	15,719	24,857	40,773	69,182

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Net operating income:					
Senior housing triple-net	102,307	107,620	107,535	105,008	115,626
Senior housing operating			4,816	13,569	22,014
Medical facilities	40,517	48,983	51,710	55,413	62,913
Non-segment/corporate	231	812	231	1,597	531
Net operating income	\$ 143,055	\$ 157,415	\$ 164,292	\$ 175,587	\$ 201,084

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The tables below reflect the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense and the provisions for depreciation and amortization include discontinued operations. Dollars are in thousands.

	Three Months Ended				
	March 31,	June 30,	September	December	March 31,
	2010	2010	30,	31,	2011
			2010	2010	
EBITDA Reconciliation:					
Net income	\$ 31,694	\$ 51,064	\$ 5,781	\$ 40,346	\$ 31,810
Interest expense	29,985	37,550	44,985	48,440	59,330
Income tax expense	84	188	52	38	129
Depreciation and amortization	43,581	47,451	49,106	62,406	74,768
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037
Interest Coverage Ratio:					
Interest expense	\$ 29,985	\$ 37,550	\$ 44,985	\$ 48,440	\$ 59,330
Non-cash interest expense	(2,841)	(3,659)	(4,258)	(3,187)	(3,716)
Capitalized interest	7,076	5,276	3,656	4,784	4,665
Total interest	34,220	39,167	44,383	50,037	60,279
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037
Interest coverage ratio	3.08x	3.48x	2.25x	3.02x	2.75x
Fixed Charge Coverage Ratio:					
Total interest	\$ 34,220	\$ 39,167	\$ 44,383	\$ 50,037	\$ 60,279
Secured debt principal payments	3,378	4,325	4,019	4,930	5,906
Preferred dividends	5,509	5,484	5,347	5,305	8,680
Total fixed charges	43,107	48,976	53,749	60,272	74,865
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037
Fixed charge coverage ratio	2.44x	2.78x	1.86x	2.51x	2.22x

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The table below reflects the reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense and the provisions for depreciation and amortization include discontinued operations. Dollars are in thousands.

	Twelve Months Ended				
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011
Adjusted EBITDA Reconciliation:					
Net income	\$ 157,976	\$ 144,282	\$ 125,377	\$ 128,884	\$ 129,001
Interest expense	111,746	121,964	138,116	160,960	190,305
Income tax expense	201	368	475	364	407
Depreciation and amortization	167,177	173,897	181,918	202,543	233,731
Stock-based compensation expense	10,619	10,736	10,669	11,823	9,866
Provision for loan losses	23,121	23,121	52,039	29,684	29,932
Loss (gain) on extinguishment of debt	44,822	51,857	34,582	34,171	16,134
Adjusted EBITDA	\$ 515,662	\$ 526,225	\$ 543,176	\$ 568,429	\$ 609,376
Adjusted Fixed Charge Coverage Ratio:					
Interest expense	\$ 111,746	\$ 121,964	\$ 138,116	\$ 160,960	\$ 190,305
Capitalized interest	38,381	32,631	26,313	20,792	18,381
Non-cash interest expense	(11,967)	(12,782)	(14,145)	(13,945)	(14,820)
Secured debt principal payments	10,464	12,612	14,333	16,652	19,180
Preferred dividends	22,064	22,032	21,860	21,645	24,816
Total fixed charges	170,688	176,457	186,477	206,104	237,862
Adjusted EBITDA	\$ 515,662	\$ 526,225	\$ 543,176	\$ 568,429	\$ 609,376
Adjusted fixed charge coverage ratio	3.02x	2.98x	2.91x	2.76x	2.56x

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions. Management considers an accounting estimate or assumption critical if:

the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

the impact of the estimates and assumptions on financial condition or operating performance is material.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure presented below relating to them. Management believes the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to Note 1 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2011.

The following table presents information about our critical accounting policies, as well as the material assumptions used to develop each estimate:

Nature of Critical Accounting Estimate	Assumptions/Approach Used
<p><u>Principles of Consolidation</u></p> <p>The consolidated financial statements include our accounts, the accounts of our wholly-owned subsidiaries and the accounts of joint ventures in which we own a majority voting interest with the ability to control operations and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. All material intercompany transactions and balances have been eliminated in consolidation.</p>	<p>We make judgments about which entities are VIEs based on an assessment of whether (i) the equity investors as a group, if any, do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. We make judgments with respect to our level of influence or control of an entity and whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, our ability to direct the activities that most significantly impact the entity's economic performance, our form of ownership interest, our representation on the entity's governing body, the size and seniority of our investment, our ability and the rights of other investors to participate in policy making decisions, replace the manager and/or liquidate the entity, if applicable. Our ability to correctly assess our influence or control over an entity at inception of our involvement or on a continuous basis when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. When we perform a primary beneficiary analysis at a date other than at</p>

inception of the variable interest entity, our assumptions may be different and may result in the identification of a different primary beneficiary.

Income Taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements.

Our determinations are based on interpretation of tax laws, and our conclusions may have an impact on the income tax expense recognized. Adjustments to income tax expense may be required as a result of: (i) audits conducted by federal and state tax authorities, (ii) our ability to qualify as a REIT, (iii) the potential for built-in-gain recognized related to prior-tax-free acquisitions of C corporations, and (iv) changes in tax laws. Adjustments required in any given period are included in income.

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Nature of Critical Accounting Estimate

Impairment of Long-Lived Assets

We review our long-lived assets for potential impairment in accordance with U.S. GAAP. An impairment charge must be recognized when the carrying value of a long-lived asset is not recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If it is determined that a permanent impairment of a long-lived asset has occurred, the carrying value of the asset is reduced to its fair value and an impairment charge is recognized for the difference between the carrying value and the fair value.

Assumptions/Approach Used

The net book value of long-lived assets is reviewed quarterly on a property by property basis to determine if there are indicators of impairment. These indicators may include anticipated operating losses at the property level, the tenant's inability to make rent payments, a decision to dispose of an asset before the end of its estimated useful life and changes in the market that may permanently reduce the value of the property. If indicators of impairment exist, then the undiscounted future cash flows from the most likely use of the property are compared to the current net book value. This analysis requires us to determine if indicators of impairment exist and to estimate the most likely stream of cash flows to be generated from the property during the period the property is expected to be held.

During the three months ended March 31, 2011, an impairment charge of \$202,000 was recorded to reduce the carrying value of two senior housing triple-net properties to their estimated fair value less costs to sell based on current sales price expectations.

Business Combinations

Real property developed by us is recorded at cost, including the capitalization of construction period interest. The cost of real property acquired is allocated to net tangible and identifiable intangible assets based on their respective fair values. Tangible assets primarily consist of land, buildings and improvements. The remaining purchase price is allocated among identifiable intangible assets primarily consisting of the above or below market component of in-place leases and the value of in-place leases. The total amount of other intangible assets acquired is further allocated to in-place lease values and customer relationship values based on management's evaluation of the specific characteristics of each tenant's lease and the company's overall relationship with that respective tenant.

We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the fair value of each component. The most significant components of our allocations are typically the allocation of fair value to the buildings as-if-vacant, land and in-place leases. In the case of the fair value of buildings and the allocation of value to land and other intangibles, our estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in-place leases, we make our best estimates based on our evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. Our assumptions affect the amount of future revenue that we will recognize over the remaining lease term for

the acquired in-place leases.

We compute depreciation and amortization on our properties using the straight-line method based on their estimated useful lives which range from 15 to 40 years for buildings and five to 15 years for improvements. Lives for intangibles are based on the remaining term of the underlying leases.

For the three months ended March 31, 2011, we recorded \$48,377,000, \$11,781,000 and \$14,610,000 as provisions for depreciation and amortization relating to buildings, improvements and intangibles, respectively, including amounts reclassified as discontinued operations. The average useful life of our buildings, improvements and intangibles was 38.7 years, 12.5 years and 3.8 years, respectively, for the three months ended March 31, 2011.

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Nature of Critical Accounting Estimate

Allowance for Loan Losses

We maintain an allowance for loan losses in accordance with U.S. GAAP. The allowance for loan losses is maintained at a level believed adequate to absorb potential losses in our loans receivable. The determination of the allowance is based on a quarterly evaluation of all outstanding loans. If this evaluation indicates that there is a greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due as scheduled according to the contractual terms of the original loan agreement. Consistent with this definition, all loans on non-accrual are deemed impaired. To the extent circumstances improve and the risk of collectability is diminished, we will return these loans to full accrual status.

Fair Value of Derivative Instruments

The valuation of derivative instruments is accounted for in accordance with U.S. GAAP, which requires companies to record derivatives at fair market value on the balance sheet as assets or liabilities.

Revenue Recognition

Revenue is recorded in accordance with U.S. GAAP, which requires that revenue be recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectability. If the collectability of revenue is determined incorrectly, the amount and timing of our reported revenue could be significantly affected. Interest income on loans is recognized as earned based upon the principal amount outstanding subject to an evaluation of

Assumptions/Approach Used

The determination of the allowance is based on a quarterly evaluation of all outstanding loans, including general economic conditions and estimated collectability of loan payments and principal. We evaluate the collectability of our loans receivable based on a combination of factors, including, but not limited to, delinquency status, historical loan charge-offs, financial strength of the borrower and guarantors and value of the underlying property.

As a result of our quarterly evaluations, we recorded \$248,000 of provision for loan losses during the three months ended March 31, 2011, resulting in an allowance for loan losses of \$1,524,000 relating to real estate loans with outstanding balances of \$9,478,000, all of which were on non-accrual status at March 31, 2011.

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are estimated by utilizing pricing models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates which may change in the future. At March 31, 2011, we participated in one interest rate swap agreement which is reported at its fair value of \$379,000 in other liabilities.

We evaluate the collectibility of our revenues and related receivables on an on-going basis. We evaluate collectibility based on assumptions and other considerations including, but not limited to, the certainty of payment, payment history, the financial strength of the investment's underlying operations as measured by cash flows and payment coverages, the value of the underlying collateral and guaranties and current economic conditions.

collectability risk. Substantially all of our operating leases contain fixed and/or contingent escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. We recognize resident fees and services, other than move in fees, monthly as services are provided. Move in fees, which are a component of resident fees and services, are recognized on a straight-line basis over the term of the applicable lease agreement. Lease agreements with residents generally have a term of one year and are cancelable by the resident with 30 days notice.

If our evaluation indicates that collectability is not reasonably assured, we may place an investment on non-accrual or reserve against all or a portion of current income as an offset to revenue.

For the three months ended March 31, 2011, we recognized \$11,709,000 of interest income, \$71,286,000 of resident fees and services, and \$172,062,000 of rental income, including discontinued operations. Cash receipts on leases with deferred revenue provisions were \$3,612,000 as compared to gross straight-line rental income recognized of \$5,030,000 for the three months ended March 31, 2011. At March 31, 2011, our straight-line receivable balance was \$88,405,000, net of reserves totaling \$265,000. Also at March 31, 2011, we had real estate loans with outstanding balances of \$9,478,000 on non-accrual status.

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Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements and Risk Factors**

This Quarterly Report on Form 10-Q may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements concern and are based upon, among other things, the possible expansion of the company's portfolio; the sale of properties; the performance of its operators/tenants and properties; its ability to enter into agreements with viable new tenants for vacant space or for properties that the company takes back from financially troubled tenants, if any; its occupancy rates; its ability to acquire, develop and/or manage properties; its ability to make distributions to stockholders; its policies and plans regarding investments, financings and other matters; its tax status as a real estate investment trust; its critical accounting policies; its ability to appropriately balance the use of debt and equity; its ability to access capital markets or other sources of funds; and its ability to meet its earnings guidance. When the company uses words such as may, will, intend, should, believe, anticipate, project, estimate or similar expressions, it is making forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The company's expected results may not be achieved, and actual results may differ materially from expectations. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including availability and cost of capital; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies, responding to government investigations and punitive settlements and operators'/tenants' difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care, senior housing and life science industries; negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent and repay loans; the company's ability to transition or sell facilities with profitable results; the failure to make new investments as and when anticipated; acts of God affecting the company's properties; the company's ability to re-lease space at similar rates as vacancies occur; the company's ability to timely reinvest sale proceeds at similar rates to assets sold; operator/tenant or joint venture partner bankruptcies or insolvencies; the cooperation of joint venture partners; government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements; regulatory approval and market acceptance of the products and technologies of life science tenants; liability or contract claims by or against operators/tenants; unanticipated difficulties and/or expenditures relating to future acquisitions; environmental laws affecting the company's properties; changes in rules or practices governing the company's financial reporting; and legal and operational matters, including real estate investment trust qualification and key management personnel recruitment and retention. Other important factors are identified in the company's Annual Report on Form 10-K for the year ended December 31, 2010 including factors identified under the headings Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. Finally, the company assumes no obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. This section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates.

We historically borrow on our unsecured line of credit arrangement to acquire, construct or make loans relating to health care and senior housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under the unsecured line of credit arrangement.

A change in interest rates will not affect the interest expense associated with our fixed rate debt. Interest rate changes, however, will affect the fair value of our fixed rate debt. Changes in the interest rate environment upon maturity of this fixed rate debt could have an effect on our future cash flows and earnings, depending on whether the debt is replaced with other fixed rate debt, variable rate debt or equity or repaid by the sale of assets. To illustrate the impact of changes in the interest rate markets, we performed a sensitivity analysis on our fixed rate debt instruments whereby we modeled the change in net present values arising from a hypothetical 1% increase in interest rates to determine the instruments' change in fair value. The following table summarizes the analysis performed as of the dates indicated (in thousands):

	March 31, 2011		December 31, 2010	
	Principal balance	Change in fair value	Principal balance	Change in fair value
Senior unsecured notes	\$ 4,464,930	\$(357,480)	\$ 3,064,930	\$(248,884)
Secured debt	1,511,202	4,138	1,030,070	(51,973)
Totals	\$ 5,976,132	\$(353,342)	\$ 4,095,000	\$(300,857)

On December 31, 2010, we assumed an interest rate swap (the December 2010 Swap) for a total notional amount of \$12,650,000 to hedge interest payments associated with long-term LIBOR based borrowings. The December 2010 Swap has an effective date of December 31, 2010 and a maturity date of December 31, 2013. The December 2010 Swap has the economic effect of fixing \$12,650,000 at 5.50% plus a credit spread through the swap's maturity. In January 2011, the December 2010 Swap was designated as a cash flow hedge and we expect it to be highly effective at offsetting changes in cash flows of interest payments on \$12,650,000 of long-term debt due to changes in the LIBOR swap rate.

Our variable rate debt, including our unsecured line of credit arrangement, is reflected at fair value. At March 31, 2011, we had \$0 outstanding related to our variable rate line of credit and \$180,504,000 outstanding related to our variable rate secured debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of \$1,805,000. At December 31, 2010, we had \$300,000,000 outstanding related to our variable rate line of credit and \$103,645,000 outstanding related to our variable rate secured debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of \$4,036,000.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

For additional information regarding fair values of financial instruments, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Note 16 to our consolidated financial statements.

Table of Contents**Item 4. Controls and Procedures**

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1A. Risk Factors**

Except as provided in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements and Risk Factors, there have been no material changes from the risk factors identified under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2011 through January 31, 2011	44,123	\$ 47.45		
February 1, 2011 through February 28, 2011				
March 1, 2011 through March 31, 2011	678	50.64		
Totals	44,801	\$ 47.49		

(1) During the three months ended March 31, 2011, the company acquired shares of common stock held by employees who tendered owned shares to satisfy the tax withholding on the lapse of certain restrictions on restricted stock.

(2) No shares were purchased as part of publicly announced plans or programs.

Item 5. Other Information

On May 10, 2011, we filed a revised Certificate of Designation with the Secretary of State of Delaware for the 6% Series H Cumulative Convertible and Redeemable Preferred Stock (the Series H Preferred Stock), a copy of which is attached as Exhibit 3.1 to this Quarterly Report on Form 10-Q, to correct the dividend rate provided therein. The annual dividend on each share of Series H Preferred Stock is \$2.8584 and is payable, when, as and if declared by our board of directors, quarterly in arrears on or about the 15th day of January, April, July and October.

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Item 6. Exhibits

- 3.1 Certificate of Designation of 6% Series H Cumulative Convertible and Redeemable Preferred Stock of the company.
- 3.2 Certificate of Designation of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock of the company (filed with the Securities and Exchange Commission as Exhibit 3.1 to the company's Form 8-K filed March 7, 2011, and incorporated herein by reference thereto).
- 3.3 Third Amended and Restated By-Laws of the company (filed with the Securities and Exchange Commission as Exhibit 3.1 to the company's Form 8-K filed March 17, 2011, and incorporated herein by reference thereto).
- 4.1 Indenture, dated as of March 15, 2010, between the company and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (filed with the Securities and Exchange Commission as Exhibit 4.1 to the company's Form 8-K filed March 15, 2010, and incorporated herein by reference thereto).
- 4.2 Supplemental Indenture No. 5, dated as of March 14, 2011, between the company and the Trustee (filed with the Securities and Exchange Commission as Exhibit 4.2 to the company's Form 8-K filed March 14, 2011, and incorporated herein by reference thereto).
- 10.1 Equity Purchase Agreement, dated as of February 28, 2011, by and among the company, FC-GEN Investment, LLC and FC-GEN Operations Investment, LLC (filed with the Securities and Exchange Commission as Exhibit 10.1 to the company's Form 8-K filed February 28, 2011, and incorporated herein by reference thereto).
- 12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (unaudited)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*

- * Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010, (ii) the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Statements of Equity for the three months ended March 31, 2011 and 2010, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 and (v) the Notes to Unaudited Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HEALTH CARE REIT, INC.

Date: May 10, 2011

By: /s/ GEORGE L. CHAPMAN

George L. Chapman,
Chairman, Chief Executive Officer and
President
(Principal Executive Officer)

Date: May 10, 2011

By: /s/ SCOTT A. ESTES

Scott A. Estes,
Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

Date: May 10, 2011

By: /s/ PAUL D. NUNGESTER, JR.

Paul D. Nungester, Jr.,
Vice President and Controller
(Principal Accounting Officer)

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