

HEALTH CARE REIT INC /DE/

Form 10-Q

August 06, 2010

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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 June 30, 2010

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.)

One SeaGate, Suite 1500, Toledo, Ohio

43604

(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. (Check one):

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 July 31, 2010, the registrant had 124,625,296 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**

	June 30, 2010 (Unaudited)	December 31, 2009 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned:		
Land and land improvements	\$ 571,501	\$ 521,055
Buildings and improvements	5,854,675	5,185,328
Acquired lease intangibles	147,861	127,390
Real property held for sale, net of accumulated depreciation	13,020	45,686
Construction in progress	255,883	456,832
Gross real property owned	6,842,940	6,336,291
Less accumulated depreciation and amortization	(766,630)	(677,851)
Net real property owned	6,076,310	5,658,440
Real estate loans receivable:		
Real estate loans receivable	471,805	427,363
Less allowance for losses on loans receivable	(5,025)	(5,183)
Net real estate loans receivable	466,780	422,180
Net real estate investments	6,543,090	6,080,620
Other assets:		
Equity investments	181,527	5,816
Deferred loan expenses	31,568	22,698
Cash and cash equivalents	55,423	35,476
Restricted cash	59,656	23,237
Receivables and other assets	208,067	199,339
Total other assets	536,241	286,566
Total assets	\$ 7,079,331	\$ 6,367,186
Liabilities and equity		
Liabilities:		
Borrowings under unsecured line of credit arrangement	\$ 206,000	\$ 140,000
Senior unsecured notes	2,135,422	1,653,027
Secured debt	813,341	620,995
Accrued expenses and other liabilities	187,443	145,713
Total liabilities	3,342,206	2,559,735

Equity:		
Preferred stock	286,410	288,683
Common stock	124,520	123,385
Capital in excess of par value	3,937,485	3,900,666
Treasury stock	(11,315)	(7,619)
Cumulative net income	1,630,120	1,547,669
Cumulative dividends	(2,237,720)	(2,057,658)
Accumulated other comprehensive income	(8,526)	(2,891)
Other equity	5,755	4,804
Total Health Care REIT, Inc. stockholders' equity	3,726,729	3,797,039
Noncontrolling interests	10,396	10,412
Total equity	3,737,125	3,807,451
Total liabilities and equity	\$ 7,079,331	\$ 6,367,186

NOTE: The consolidated balance sheet at December 31, 2009 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Revenues:				
Rental income	\$ 151,146	\$ 127,644	\$ 293,860	\$ 255,053
Interest income	9,335	10,158	18,383	20,111
Other income	2,650	1,237	3,646	2,721
Total revenues	163,131	139,039	315,889	277,885
Expenses:				
Interest expense	37,454	26,107	67,245	52,786
Property operating expenses	12,498	11,240	25,010	22,288
Depreciation and amortization	47,451	38,115	90,838	76,313
Transaction costs	752		8,466	
General and administrative	11,878	11,062	28,700	28,424
Loss (gain) on extinguishment of debt	7,035		25,072	(1,678)
Provision for loan losses				140
Total expenses	117,068	86,524	245,331	178,273
Income from continuing operations before income taxes and income from unconsolidated joint ventures	46,063	52,515	70,558	99,612
Income tax (expense) benefit	(188)	(21)	(273)	(72)
Income from unconsolidated joint ventures	1,828		2,596	
Income from continuing operations	47,703	52,494	72,881	99,540
Discontinued operations:				
Gain (loss) on sales of properties	3,314	10,677	10,033	27,713
Income (loss) from discontinued operations, net	47	1,588	(156)	4,150
Discontinued operations, net	3,361	12,265	9,877	31,863
Net income	51,064	64,759	82,758	131,403
Less: Preferred stock dividends	5,484	5,516	10,993	11,039
Less: Net income (loss) attributable to noncontrolling interests	(66)	3	307	5
Net income attributable to common stockholders	\$ 45,646	\$ 59,240	\$ 71,458	\$ 120,359
Average number of common shares outstanding:				
Basic	123,808	110,864	123,541	109,548
Diluted	124,324	111,272	124,059	109,956

Earnings per share:

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Basic:

Income from continuing operations attributable to common stockholders	\$ 0.34	\$ 0.42	\$ 0.50	\$ 0.81
Discontinued operations, net	0.03	0.11	0.08	0.29
Net income attributable to common stockholders*	\$ 0.37	\$ 0.53	\$ 0.58	\$ 1.10

Diluted:

Income from continuing operations attributable to common stockholders	\$ 0.34	\$ 0.42	\$ 0.50	\$ 0.80
Discontinued operations, net	0.03	0.11	0.08	0.29
Net income attributable to common stockholders*	\$ 0.37	\$ 0.53	\$ 0.58	\$ 1.09
Dividends declared and paid per common share	\$ 0.68	\$ 0.68	\$ 1.36	\$ 1.36

* Amounts may not sum due to rounding

See notes to unaudited consolidated financial statements

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HEALTH CARE REIT, INC. AND SUBSIDIARIES

(in thousands)

	Six Months Ended June 30, 2010									
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income	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					82,451				307	82,758
Other comprehensive income:										
Unrealized gain (loss) on equity investments							(137)			(137)
Cash flow hedge activity							(5,498)			(5,498)
Total comprehensive income										77,123
Contributions by noncontrolling interests									2,271	2,271
Distributions to noncontrolling interests									(2,594)	(2,594)
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		1,080	44,290 (9,689)	(3,696)				(243)		41,431 (9,689)

Equity component of convertible debt										
Conversion of preferred stock	(2,273)	55	2,218							
Option compensation expense								1,194		1,194
Cash dividends paid:										
Common stock cash dividends						(169,069)				(169,069)
Preferred stock cash dividends						(10,993)				(10,993)
Balances at end of period	\$ 286,410	\$ 124,520	\$ 3,937,485	\$ (11,315)	\$ 1,630,120	\$ (2,237,720)	\$ (8,526)	\$ 5,755	\$ 10,396	\$ 3,737,125

Six Months Ended June 30, 2009

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	\$ 289,929	\$ 104,635	\$ 3,204,690	\$ (5,145)	\$ 1,354,400	\$ (1,723,819)	\$ (1,113)	\$ 4,105	\$ 10,603	\$ 3,238,285
Comprehensive income:										
Net income					131,398				5	131,403
Other comprehensive income:										
Unrealized gain (loss) on equity investments							178			178
Cash flow hedge activity							(81)			(81)
Total comprehensive income										131,500
Contributions by noncontrolling interests									1,349	1,349
									(1,846)	(1,846)

Distributions to noncontrolling interests										
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures	851	30,137	(2,442)							28,546
Proceeds from issuance of common shares	6,217	218,386								224,603
Conversion of preferred stock	(1,216)	30	1,186							
Option compensation expense							1,264			1,264
Cash dividends paid:										
Common stock cash dividends							(151,725)			(151,725)
Preferred stock cash dividends							(11,039)			(11,039)
Balances at end of period	\$ 288,713	\$ 111,733	\$ 3,454,399	\$ (7,587)	\$ 1,485,798	\$ (1,886,583)	\$ (1,016)	\$ 5,369	\$ 10,111	\$ 3,460,937

See notes to unaudited consolidated financial statements

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HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Operating activities		
Net income	\$ 82,758	\$ 131,403
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	91,032	82,057
Other amortization expenses	8,047	7,254
Provision for loan losses		140
Stock-based compensation expense	8,747	7,659
Loss (gain) on extinguishment of debt	25,072	(1,678)
Income from unconsolidated joint ventures	(2,596)	
Rental income less than (in excess of) cash received	(4,530)	5,217
Amortization related to above (below) market leases, net	(1,296)	(724)
Loss (gain) on sales of properties	(10,033)	(27,713)
Increase (decrease) in accrued expenses and other liabilities	5,552	(15,875)
Decrease (increase) in receivables and other assets	(11,247)	(3,407)
Net cash provided from (used in) operating activities	191,506	184,333
Investing activities		
Investment in real property	(389,873)	(298,359)
Capitalized interest	(12,352)	(20,891)
Investment in real estate loans receivable	(41,784)	(37,046)
Other investments, net of payments	(10,051)	(2,556)
Principal collected on real estate loans receivable	9,420	31,077
Contributions to unconsolidated joint ventures	(174,574)	
Decrease (increase) in restricted cash	(36,418)	135,237
Proceeds from sales of real property	54,492	132,285
Net cash provided from (used in) investing activities	(601,140)	(60,253)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	66,000	(228,000)
Proceeds from issuance of senior unsecured notes	932,412	
Payments to extinguish senior unsecured notes	(495,542)	(19,796)
Net proceeds from the issuance of secured debt	79,127	133,071
Payments on secured debt	(7,704)	(35,791)
Net proceeds from the issuance of common stock	37,560	249,196
Decrease (increase) in deferred loan expenses	(1,887)	(3,364)
Contributions by noncontrolling interests	2,271	1,349
Distributions to noncontrolling interests	(2,594)	(1,846)
Cash distributions to stockholders	(180,062)	(162,764)

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Net cash provided from (used in) financing activities	429,581	(67,945)
Increase (decrease) in cash and cash equivalents	19,947	56,135
Cash and cash equivalents at beginning of period	35,476	23,370
Cash and cash equivalents at end of period	\$ 55,423	\$ 79,505
Supplemental cash flow information:		
Interest paid	\$ 71,027	\$ 71,188
Income taxes paid	149	384

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 June 30, 2010, our broadly diversified portfolio consisted of 625 properties in 39 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 six months ended June 30, 2010 are not necessarily an indication of the results that may be expected for the year ending December 31, 2010. 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, 2009, as updated by our Current Report on Form 8-K filed May 10, 2010.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) amended the consolidation guidance for variable interest entities. The new guidance, to be applied on a continuous basis, requires enterprises to perform a qualitative approach to determining whether or not a variable interest entity will need to be consolidated. This evaluation is based on an enterprise's ability to direct and influence the activities of a variable interest entity that most significantly impact its economic performance. This amendment was effective as of January 1, 2010. The adoption of this guidance did not have a material impact on our consolidated financial position or results of operations.

3. Real Property Acquisitions and Development

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

	June 30, 2010			Six Months Ended June 30, 2009		
	Senior Housing and Care	Medical Facilities	Totals	Senior Housing and Care	Medical Facilities	Totals
Real property acquisitions:						
Senior housing facilities	\$ 109,492	\$	\$ 109,492	\$	\$	\$
Medical office buildings		246,582	246,582			
Total acquisitions	109,492	246,582	356,074			
Less: Assumed debt	(9,648)	(108,244)	(117,892)			
Assumed other assets (liabilities), net	(642)	(31,048)	(31,690)			
Cash disbursed for acquisitions	99,202	107,290	206,492			
Construction in progress additions:						
Senior housing facilities	50,726		50,726	193,076		193,076
Skilled nursing facilities				15,935		15,935

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Hospitals		69,646	69,646		51,855	51,855
Medical office buildings		59,922	59,922		45,749	45,749
Total construction in progress additions	50,726	129,568	180,294	209,011	97,604	306,615
Less: Capitalized interest Accruals ⁽¹⁾	(5,275)	(6,708)	(11,983)	(14,845)	(6,046)	(20,891)
		(5,775)	(5,775)			
Cash disbursed for construction in progress	45,451	117,085	162,536	194,166	91,558	285,724
Capital improvements to existing properties	4,247	16,598	20,845	7,006	5,629	12,635
Total cash invested in real property	\$ 148,900	\$ 240,973	\$ 389,873	\$ 201,172	\$ 97,187	\$ 298,359

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

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

	Six Months Ended					
	June 30, 2010			June 30, 2009		
	Senior Housing and Care	Medical Facilities	Totals	Senior Housing and Care	Medical Facilities	Totals
Development projects:						
Senior housing facilities	\$ 269,260	\$	\$ 269,260	\$ 197,490	\$	\$ 197,490
Skilled nursing facilities				14,561		14,561
Hospitals		96,829	96,829			
Medical office buildings		13,652	13,652			
Total development projects	269,260	110,481	379,741	212,051		212,051
Expansion projects	1,502		1,502	3,601		3,601
Total construction in progress conversions	\$ 270,762	\$ 110,481	\$ 381,243	\$ 215,652	\$	\$ 215,652

Transaction costs for the six months ended June 30, 2010 primarily represent a \$5,000,000 termination fee incurred in connection with the transfer of an entrance fee property to a new operator and costs incurred in connection with the new property acquisitions.

4. Real Estate Intangibles

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

	June 30, 2010	December 31, 2009
Assets:		
In place lease intangibles	\$ 85,823	\$ 74,198
Above market tenant leases	16,363	10,232
Below market ground leases	41,874	39,806
Lease commissions	3,801	3,154
Gross historical cost	147,861	127,390
Accumulated amortization	(35,124)	(29,698)
Net book value	\$ 112,737	\$ 97,692
Weighted-average amortization period in years	27.7	30.0
Liabilities:		
Below market tenant leases	\$ 54,009	\$ 22,961
Above market ground leases	4,084	4,084

Gross historical cost	58,093	27,045
Accumulated amortization	(13,090)	(10,478)
Net book value	\$ 45,003	\$ 16,567
Weighted-average amortization period in years	12.4	12.1

5. Dispositions, Assets Held for Sale and Discontinued Operations

During the year ended December 31, 2009, an impairment charge of \$25,223,000 was recorded to reduce the carrying value of eight medical facilities to their estimated fair value less costs to sell. In determining the fair value of the properties, we used a combination of third party appraisals based on market comparable transactions, other market listings and asset quality as well as management calculations based on projected operating income and published capitalization rates. During the six months ended June 30, 2010, we sold nine properties. At June 30, 2010, we had five medical facilities that satisfied the requirements for held for sale treatment. We did not recognize any impairment loss on these properties in 2010 as the fair value less estimated costs to sell exceeded our carrying values. The following is a summary of our real property disposition activity for the periods presented (in thousands):

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

	June 30, 2010		Six Months Ended			June 30, 2009	
	Senior Housing and Care	Medical Facilities	Totals	Senior Housing and Care	Medical Facilities	Totals	
Real property dispositions:							
Senior housing facilities	\$ 3,437	\$	\$ 3,437	\$ 44,877	\$	\$ 44,877	
Skilled nursing facilities	34,924		34,924	18,854		18,854	
Hospitals					40,841	40,841	
Medical office buildings		7,568	7,568				
Total dispositions	38,361	7,568	45,929	63,731	40,841	104,572	
Add: Gain on sales of real property	8,368	1,665	10,033	13,358	14,355	27,713	
Seller financing on sales of real property		(1,470)	(1,470)				
Proceeds from real property sales	\$ 46,729	\$ 7,763	\$ 54,492	\$ 77,089	\$ 55,196	\$ 132,285	

We have reclassified the income and expenses attributable to all properties sold and attributable to properties held for sale at June 30, 2010 to discontinued operations. Expenses include an allocation of interest expense based on property carrying values and our weighted average cost of debt. The following illustrates the reclassification impact as a result of classifying properties as discontinued operations for the periods presented (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Rental income	\$ 648	\$ 6,233	\$ 2,040	\$ 14,189
Expenses:				
Interest expense	96	1,225	290	2,557
Property operating expenses	505	804	1,712	1,738
Provision for depreciation		2,616	194	5,744
Income (loss) from discontinued operations, net	\$ 47	\$ 1,588	\$ (156)	\$ 4,150

6. Real Estate Loans Receivable

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

	June 30, 2010		Six Months Ended			June 30, 2009	
	Senior Housing	Medical Facilities	Totals	Senior Housing	Medical Facilities	Totals	

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	and Care		and Care			
Advances on real estate loans receivable:						
Investments in new loans	\$ 8,617	\$ 15,799	\$ 24,416	\$ 1,921	\$	\$ 1,921
Draws on existing loans	18,838		18,838	34,149	976	35,125
Sub-total	27,455	15,799	43,254	36,070	976	37,046
Less: Seller financing on property sales		(1,470)	(1,470)			
Net cash advances on real estate loans	27,455	14,329	41,784	36,070	976	37,046
Receipts on real estate loans receivable:						
Loan payoffs	1,599		1,599	18,440		18,440
Principal payments on loans	7,705	116	7,821	11,742	895	12,637
Total receipts on real estate loans	9,304	116	9,420	30,182	895	31,077
Net advances (receipts) on real estate loans	\$ 18,151	\$ 14,213	\$ 32,364	\$ 5,888	\$ 81	\$ 5,969

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

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

and FCE.B). We acquired a 49% interest in a seven-building life science campus with approximately 1.2 million square feet 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 and includes affiliates of investment grade pharmaceutical and research tenants such as Novartis, Genzyme, Millennium (a subsidiary of Takeda Pharmaceuticals), and Brigham and Women's Hospital. Forest City Enterprises self-developed the portfolio and will continue to manage it on behalf of the joint venture. The life science campus is part of a mixed-use project that includes a 210-room hotel, 674 residential units, a grocery store, restaurants and retail.

In connection with these transactions, we invested \$174,574,000 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 results of operations for these properties 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. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$21,082,000 at June 30, 2010 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.

8. Customer Concentration

The following table summarizes certain information about our customer concentration as of June 30, 2010 (dollars in thousands):

	Number of Properties	Total Investment ⁽²⁾	Percent of Investment ⁽³⁾
Concentration by investment: ⁽¹⁾			
Senior Living Communities, LLC	11	\$ 533,432	8%
Aurora Health Care, Inc.	18	308,338	5%
Brookdale Senior Living, Inc.	86	305,928	4%
Signature Healthcare LLC	32	264,005	4%
Emeritus Corporation	20	234,827	3%
Remaining portfolio	458	5,253,970	76%
Totals	625	\$6,900,500	100%

(1) All of our top five customers, except for Aurora Health Care, Inc., are in our senior housing and care segment.

(2) Includes our share of unconsolidated

joint venture
investment of
\$352,385,000.
Please see Note
7 for additional
information.

- (3) Investments
with our top five
customers
comprised 24%
of total
investments at
December 31,
2009.

9. Borrowings Under Line of Credit Arrangement and Related Items

At June 30, 2010, we had an unsecured line of credit arrangement with a consortium of sixteen banks in the amount of \$1,150,000,000, which is scheduled to expire on August 5, 2011 (with the ability to extend for one year at our discretion if we are in compliance with all covenants). 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 (0.95% at June 30, 2010). The applicable margin is based on certain of our debt ratings and was 0.6% at June 30, 2010. 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 June 30, 2010. 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance outstanding at quarter end	\$206,000	\$342,000	\$206,000	\$342,000
Maximum amount outstanding at any month end	\$431,000	\$342,000	\$431,000	\$559,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$293,505	\$273,242	\$288,337	\$344,724
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.63%	1.77%	1.55%	1.68%

Table of Contents**HEALTH CARE REIT, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****10. Senior Unsecured Notes and Secured Debt**

We have \$2,135,422,000 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 \$2,164,930,000 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, generating net proceeds of \$337,517,000. 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 \$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 June 30, 2010, 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, generating net proceeds of \$388,943,000. 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 June 30, 2010, we had \$168,086,000 of these notes outstanding.

During the six months ended June 30, 2010, we issued \$494,403,000 of 3.00% senior unsecured convertible notes due December 2029, generating net proceeds of \$486,084,000. 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 with net proceeds of \$446,328,000. We have secured debt totaling \$813,341,000, collateralized by owned properties, with annual stated interest rates ranging from 4.60% to 7.98%. The carrying amounts of the secured debt represent the par value of \$813,749,000 adjusted for any unamortized fair value adjustments. The carrying values of the properties securing the debt totaled \$1,176,865,000 at June 30, 2010. During the six months ended June 30, 2010, we assumed \$106,140,000 of first mortgage loans with an average rate of 7.35% secured by 17 medical office buildings, assumed \$10,289,000 of first mortgage loans with an average rate of 6.14% secured by two senior housing facilities and raised

\$81,977,000 of first mortgage loans with an average rate of 5.10% secured by eight skilled nursing facilities.

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 June 30, 2010, we were in compliance with all of the covenants under our debt agreements.

At June 30, 2010, the annual principal payments due on these debt obligations are as follows (in thousands):

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

	Senior Unsecured Notes ⁽¹⁾	Secured Debt ⁽¹⁾	Totals
2010	\$	\$ 8,957	\$ 8,957
2011		18,772	18,772
2012	76,853	25,313	102,166
2013	300,000	74,523	374,523
2014		144,343	144,343
Thereafter	1,788,077	541,841	2,329,918
Totals	\$ 2,164,930	\$ 813,749	\$ 2,978,679

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

11. Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. Derivates 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	
		June 30, 2010	December 31, 2009
Cash flow hedge interest rate swaps	Other liabilities	\$7,799	\$ 2,381

Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. Approximately \$2,812,000 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		Six Months Ended		
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	
Gain (loss) on interest rate swap recognized in OCI (effective portion)	n/a	\$(4,962)	\$ (40)	\$(7,016)	\$ (80)
Gain (loss) reclassified from AOCI into income (effective portion)	Interest expense	(794)		(1,598)	
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. The August 2009 Swap has an effective date of August 12, 2009 and a maturity date of September 1, 2016. The August 2009 Swap has the economic effect of fixing \$52,198,000 at 3.93% plus a credit spread for seven years. The August 2009 Swap has been designated as a cash flow hedge and we expect it to be

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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. The September 2009 Swap has an effective date of September 30, 2009 and a maturity date of October 1, 2016. The September 2009 Swap has the economic effect of fixing \$48,155,000 at 3.2675% plus a credit spread for seven years. The September 2009 Swap has been designated as a cash flow hedge and we expect 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.

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 June 30, 2010 or December 31, 2009.

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 June 30, 2010, 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 June 30, 2010, our obligation under the letter of credit was \$1,000,000.

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 November 2010. At June 30, 2010, our obligation under the letter of credit was \$129,057.

At June 30, 2010, we had outstanding construction financings of \$255,883,000 for leased properties and were committed to providing additional financing of approximately \$310,022,000 to complete construction. At June 30, 2010, we had contingent purchase obligations totaling \$10,764,000. 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.

At June 30, 2010, we had operating lease obligations of \$183,398,000 relating to certain ground leases and company office space. We incurred rental expense relating to our company office space of \$303,000 and \$635,000 for the three and six months ended June 30, 2010, respectively, as compared to \$300,000 and \$597,000 for the same periods in 2009. 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 June 30, 2010, aggregate future minimum rentals to be received under these noncancelable subleases totaled \$31,749,000.

At June 30, 2010, future minimum lease payments due under operating leases are as follows (in thousands):

2010	\$ 2,259
2011	4,611
2012	4,291
2013	4,295
2014	4,317
Thereafter	163,625
Totals	\$ 183,398

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

	June 30, 2010	December 31, 2009
Preferred Stock, \$1.00 par value:		
Authorized shares	50,000,000	50,000,000
Issued shares	11,397,252	11,474,093
Outstanding shares	11,397,252	11,474,093
Common Stock, \$1.00 par value:		
Authorized shares	225,000,000	225,000,000
Issued shares	124,781,646	123,583,242
Outstanding shares	124,498,970	123,385,317

Preferred Stock. During the six months ended June 30, 2009, certain holders of our Series G Cumulative Convertible Preferred Stock converted 40,600 shares into 29,056 shares of our common stock, leaving 400,713 of such shares outstanding at June 30, 2009. During the six months ended June 30, 2010, certain holders of our Series G Cumulative Convertible Preferred Stock converted 76,841 shares into 54,990 shares of our common stock, leaving 322,872 of such shares outstanding at June 30, 2010.

Common Stock. The following is a summary of our common stock issuances during the six months ended June 30, 2010 and 2009 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
February 2009 public issuance	5,816,870	\$ 36.85	\$ 214,352	\$ 210,880
2009 Equity shelf plan issuances	400,000	36.05	14,420	13,723
2009 Dividend reinvestment plan issuances	741,282	33.18	24,593	24,593
2009 Totals	6,958,152		\$ 253,365	\$ 249,196
2010 Dividend reinvestment plan issuances	855,343	\$ 41.59	\$ 35,570	\$ 35,570
2010 Option exercises	51,313	38.78	1,990	1,990
2010 Totals	906,656		\$ 37,560	\$ 37,560

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

	Six Months Ended			
	June 30, 2010		June 30, 2009	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 1.3600	\$ 169,069	\$ 1.3600	\$ 151,725
Series D Preferred Stock	0.9844	3,938	0.9844	3,938
Series E Preferred Stock	0.7500	56	0.7500	56
Series F Preferred Stock	0.9532	6,672	0.9532	6,672
Series G Preferred Stock	0.9376	327	0.9376	373

Totals

\$ 180,062

\$ 162,764

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

Comprehensive Income

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

	June 30, 2010	December 31, 2009
Unrecognized losses on cash flow hedges	\$ (7,405)	\$ (1,907)
Unrecognized losses on equity investments	(687)	(550)
Unrecognized actuarial losses	(434)	(434)
Totals	\$ (8,526)	\$ (2,891)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Unrecognized losses on cash flow hedges	\$ (4,208)	\$ (41)	\$ (5,498)	\$ (81)
Unrecognized gains (losses) on equity investments	(227)	373	(137)	178
Total other comprehensive income	(4,435)	332	(5,635)	97
Net income attributable to controlling interests	51,130	64,756	82,451	131,398
Comprehensive income attributable to controlling interests	46,695	65,088	76,816	131,495
Net and comprehensive income attributable to noncontrolling interests	(66)	3	307	5
Total comprehensive income	\$ 46,629	\$ 65,091	\$ 77,123	\$ 131,500

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 \$221,000 and \$1,194,000 for the three and six months ended June 30, 2010, respectively, as compared to \$182,000 and \$1,264,000 for the same periods in 2009.

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 continue 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:

	Six Months Ended	
	June 30, 2010	June 30, 2009
Dividend yield	6.28%	7.35%
Expected volatility	34.08%	29.36%
Risk-free interest rate	3.23%	2.33%
Expected life (in years)	7.0	7.0
Weighted-average fair value	\$ 7.82	\$ 4.38

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 six months ended June 30, 2010:

	Number of Shares (000 s)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Aggregate Intrinsic Value (\$000 s)
Stock Options				
Options at beginning of year	1,062	\$ 37.71	8.1	
Options granted	280	43.29		
Options exercised	(51)	34.05		
Options terminated	(3)	38.32		
Options at end of period	1,288	\$ 39.07	7.8	\$ 4,620
Options exercisable at end of period	517	\$ 37.08	6.1	\$ 2,825
Weighted average fair value of options granted during the period		\$ 7.82		

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 June 30, 2010. During the six months ended June 30, 2010, the aggregate intrinsic value of options exercised under our stock incentive plans was \$550,000 (determined as of the date of option exercise). There were no option exercises during the six months ended June 30, 2009. Cash received from option exercises under our stock incentive plans was \$1,990,000 for the six months ended June 30, 2010.

As of June 30, 2010, there was approximately \$3,155,000 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 June 30, 2010, there was approximately \$9,360,000 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 four years.

The following table summarizes information about non-vested stock incentive awards as of June 30, 2010 and changes for the six months ended June 30, 2010:

	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, 2009	675	\$ 5.44	405	\$ 40.26
Vested	(181)	5.91	(229)	42.05
Granted	280	7.82	239	43.23
Terminated	(4)	8.38	(1)	38.55
Non-vested at June 30, 2010	770	\$ 6.18	414	\$ 41.00

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

15. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator for basic and diluted earnings per share net income attributable to common stockholders	\$ 45,646	\$ 59,240	\$ 71,458	\$ 120,359
Denominator for basic earnings per share weighted average shares	123,808	110,864	123,541	109,548
Effect of dilutive securities:				
Employee stock options	102		104	
Non-vested restricted shares	414	408	414	408
Dilutive potential common shares	516	408	518	408
Denominator for diluted earnings per share adjusted weighted average shares	124,324	111,272	124,059	109,956
Basic earnings per share	\$ 0.37	\$ 0.53	\$ 0.58	\$ 1.10
Diluted earnings per share	\$ 0.37	\$ 0.53	\$ 0.58	\$ 1.09

The diluted earnings per share calculations exclude the dilutive effect of 381,000 stock options for the three and six months ended June 30, 2010, as compared to 1,100,000 for the same periods in 2009, because the exercise prices were less than the average market price. The Series E Cumulative Convertible and Redeemable Preferred Stock, the Series G Cumulative Convertible Preferred Stock, and outstanding convertible senior unsecured notes were not included in these calculations as the effect of the conversions into common stock was anti-dilutive for the relevant periods presented.

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.

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):

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Mortgage loans receivable	\$ 107,674	\$ 107,791	\$ 74,517	\$ 74,765
Other real estate loans receivable	364,131	360,595	352,846	354,429
Available-for-sale equity investments	913	913	1,050	1,050
Cash and cash equivalents	55,423	55,423	35,476	35,476
Financial Liabilities:				
Borrowings under unsecured lines of credit arrangements	\$ 206,000	\$ 206,000	\$ 140,000	\$ 140,000
Senior unsecured notes	2,135,422	2,299,610	1,653,027	1,762,129
Secured debt	813,341	820,864	620,995	623,266
Interest rate swap agreements	7,799	7,799	2,381	2,381

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.

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 June 30, 2010			
	Total	Level 1	Level 2	Level 3
Available-for-sale equity investments ⁽¹⁾	\$ 913	\$ 913	\$	\$
Interest rate swap agreements ⁽²⁾	(7,799)		(7,799)	
Totals	\$ (6,886)	\$ 913	\$ (7,799)	\$

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

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We invest in senior housing and health care real estate. We evaluate our business and make resource allocations on our two business segments—senior housing and care and medical facilities. Our primary senior housing and care properties include skilled nursing facilities, assisted living facilities, independent living/continuing care retirement communities and combinations thereof. Under the senior housing and care 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 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 and care investments. Our life science investments are currently held 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, 2009, as updated by our Current Report on Form 8-K filed May 10, 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.

During the six months ended June 30, 2010, we changed the names of our segments and reclassified certain assets and related revenues. All hospitals that were formerly classified as investment properties have been reclassified to medical facilities. Accordingly, we have reclassified the following prior period amounts to be consistent with the current year classification for the three and six months ended June 30, 2009, respectively: (i) rental income of \$10,627,000 and \$23,304,000; (ii) interest income of \$1,248,000 and \$2,478,000; (iii) other income of \$70,000 and \$172,000; and (iv) real estate depreciation/amortization of \$3,155,000 and \$6,823,000. Additionally, we have restated \$97,000 and \$194,000 of interest income from non-segment/corporate revenues to medical facilities to be consistent with the current year classification.

Summary information for the reportable segments during the three and six months ended June 30, 2010 and 2009 is as follows (in thousands):

	Rental Income ⁽¹⁾	Interest Income	Other Income	Total Revenues ⁽¹⁾	Property Operating Expenses ⁽¹⁾	Net Operating Income ⁽²⁾	Real Estate Depreciation/ Amortization ⁽³⁾	Interest Expense ⁽¹⁾	Total Assets
Three Months Ended									
June 30, 2010									
Senior housing and care	\$ 97,254	\$ 8,830	\$ 1,536	\$ 107,620	\$	\$ 107,620	\$ 28,553	\$ 5,022	\$ 4,234,307
Medical facilities ⁽³⁾	54,540	505	302	55,347	13,003	42,344	18,898	6,476	2,718,111
Non-segment/Corporate			812	812		812		26,052	126,913
	\$ 151,794	\$ 9,335	\$ 2,650	\$ 163,779	\$ 13,003	\$ 150,776	\$ 47,451	\$ 37,550	\$ 7,079,331
Three Months Ended									
June 30, 2009									
Senior housing and care	\$ 90,657	\$ 8,910	\$ 570	\$ 100,137	\$	\$ 100,137	\$ 25,663	\$ 2,913	
Medical facilities	43,220	1,248	304	44,772	12,044	32,728	15,068	5,238	

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Non-segment/Corporate			363	363		363		19,181
	\$ 133,877	\$ 10,158	\$ 1,237	\$ 145,272	\$ 12,044	\$ 133,228	\$ 40,731	\$ 27,332

	Rental Income ⁽¹⁾	Interest Income	Other Income	Total Revenues ⁽¹⁾	Property Operating Expenses ⁽¹⁾	Net Operating Income ⁽²⁾	Real Estate Depreciation/ Amortization ⁽¹⁾	Interest Expense ⁽¹⁾
Six Months Ended								
June 30, 2010								
Senior housing and care	\$ 190,490	\$ 17,405	\$ 2,028	\$ 209,923	\$	\$ 209,923	\$ 54,954	\$ 9,693
Medical facilities ⁽³⁾	105,410	978	574	106,962	26,722	80,240	36,078	12,053
Non-segment/Corporate			1,044	1,044		1,044		45,789
	\$ 295,900	\$ 18,383	\$ 3,646	\$ 317,929	\$ 26,722	\$ 291,207	\$ 91,032	\$ 67,535
Six Months Ended								
June 30, 2009								
Senior housing and care	\$ 180,092	\$ 17,633	\$ 1,362	\$ 199,087	\$	\$ 199,087	\$ 51,279	\$ 4,558
Medical facilities	89,150	2,478	619	92,247	24,026	68,221	30,778	10,450
Non-segment/Corporate			740	740		740		40,335
	\$ 269,242	\$ 20,111	\$ 2,721	\$ 292,074	\$ 24,026	\$ 268,048	\$ 82,057	\$ 55,343

(1) Includes amounts from discontinued operations.

(2) 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.

- (3) Excludes amounts related to our life science buildings held in an unconsolidated joint venture. Please see Note 7 for additional information.

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HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

Merrill Gardens. On August 4, 2010, we announced we will form an \$817 million partnership with Merrill Gardens, LLC. We will acquire an 80% interest in a 38-building senior housing portfolio with 4,388 units located primarily in California and Washington. Merrill Gardens will continue to manage the assets and own the remaining 20% interest. The partnership will consist of 13 facilities currently owned by us valued at \$307 million and 25 additional facilities valued at \$510 million. The transaction is anticipated to close in September.

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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, 2009, as updated by our Current Report on Form 8-K filed May 10, 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 an equity real estate investment trust (REIT) that invests in senior housing and health care real estate. Founded in 1970, we were the first REIT to invest exclusively in health care facilities. The following table summarizes our portfolio as of June 30, 2010:

Type of Property	Investments (in thousands)	Percentage of Investments	Number of Properties	# Beds/Units or Sq. Ft.	Investment per metric ⁽¹⁾	States
Senior housing facilities	\$ 2,672,125	38.7%	241	19,340 units	\$ 140,726 per unit	34
Skilled nursing facilities	1,434,269	20.8%	204	27,442 beds	52,265 per bed	26
Hospitals	719,324	10.4%	31	1,826 beds	442,424 per bed	13
Medical office buildings	1,722,397	25.0%	142	7,587,088 sq. ft.	250 per sq. ft.	25
Life science buildings ⁽²⁾	352,385	5.1%	7		n/a	1
Totals	\$ 6,900,500	100.0%	625			39

(1) Investment per metric was computed by using the total investment amount of \$6,858,137,000, which includes net real estate investments and unfunded construction commitments for which initial funding has commenced which amounted to

\$6,548,115,000
and
\$310,022,000,
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 projects that national health expenditures will rise to \$3.4 trillion in 2015 or 17.7% of gross domestic product (GDP). This is up from \$2 trillion or 15.7% of GDP in 2005. Health expenditures per capita are projected to rise approximately 4.7% per year from 2005 to 2015. 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 is 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 16.4% 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. The elderly population aged 65 and over is projected to increase by 76.6% through 2030. 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;

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

On-going merger and acquisition activity.

Economic Outlook

The serious economic recession affecting the national and global economy has continued to impact all sectors, including to a somewhat lesser degree health care. Continuing mixed economic signals have made it difficult to predict when there might be a return to more normal and stable growth rates, employment levels and overall economic performance.

Banks have remained cautious in their lending, but significant liquidity has been injected into the senior housing and care markets by various Government-Sponsored Enterprises. In addition, there is significant equity investment capital available for certain health care sectors, particularly medical office buildings. This has had the effect of keeping capitalization rates in these segments generally in line with or even below historic rates. Debt costs for REITs have generally come down over the past 12 months, and equity markets for health care REITs have remained open for the most part.

As a consequence, while liquidity remains an important consideration in 2010, we have been more aggressive in pursuing attractive investment opportunities that meet our strategic and underwriting criteria. We have also been more active in accessing capital markets during this time. We believe the markets in which we invest will continue to offer stable returns during the economic downturn and significant growth potential as and when the economy begins to rebound.

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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 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 six months ended June 30, 2010, rental income and interest income represented 93% and 6% 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.

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 \$1.8 billion to \$2.2 billion in 2010, comprised of acquisitions/joint ventures totaling \$1.5 billion to \$1.8 billion and funded new development of \$300 million to \$400 million. We anticipate the sale of real property and the repayment of loans receivable totaling approximately \$300 million during 2010. 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 June 30, 2010, we had \$55,423,000 of cash and cash equivalents, \$59,656,000 of restricted cash and \$944,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

Key Transactions in 2010

We have completed the following key transactions to date in 2010:

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our Board of Directors increased the quarterly cash dividend to \$0.69 per common share, as compared to \$0.68 per common share for 2009, beginning in August 2010. The dividend declared for the quarter ended June 30, 2010 represents the 157th consecutive quarterly dividend payment;

we completed \$877,597,000 of gross investments and had \$47,528,000 of investment payoffs during the six months ended June 30, 2010;

we issued \$494,403,000 of 3.00% convertible senior unsecured notes due 2029 and repurchased \$441,326,000 of 4.75% convertible senior unsecured notes due 2026 and 2027 in March and June 2010;

we issued \$450,000,000 of 6.125% senior unsecured notes due 2020 with net proceeds of \$446,328,000 in April and June 2010; and

we raised \$81,977,000 of HUD mortgage loans at an average rate of 5.10%.

Recent Events

On August 4, 2010, we announced we will form an \$817 million partnership with Merrill Gardens, LLC. We will acquire an 80% interest in a 38-building senior housing portfolio with 4,388 units located primarily in California and Washington. Merrill Gardens will continue to manage the assets and own the remaining 20% interest. The partnership will consist of 13 facilities currently owned by us valued at \$307 million and 25 additional facilities valued at \$510 million. The entire portfolio is currently projected to generate 2011 NOI after management fees of approximately \$60 to \$63 million. The transaction is anticipated to close in September.

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):

			Three Months Ended			
	March 31,	June 30,	September	December	March 31,	June 30,
	2009	2009	30,	31,	2010	2010
			2009	2009		
Net income attributable to common stockholders	\$ 61,119	\$ 59,240	\$ 19,130	\$ 31,700	\$ 25,812	\$ 45,646
Funds from operations	85,322	89,207	60,933	56,290	63,087	92,214
Net operating income	134,819	133,228	133,964	145,667	143,055	157,415

Per share data (fully diluted):

Net income attributable to common stockholders	\$	0.56	\$	0.53	\$	0.17	\$	0.26	\$	0.21	\$	0.37
Funds from operations		0.79		0.80		0.53		0.46		0.51		0.74

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:

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	Three Months Ended					
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
Debt to book capitalization ratio	43%	44%	39%	39%	43%	46%
Debt to undepreciated book capitalization ratio	39%	40%	35%	35%	39%	41%
Debt to market capitalization ratio	41%	40%	31%	30%	32%	36%
Interest coverage ratio	3.88x	3.74x	2.63x	3.21x	3.08x	3.48x
Fixed charge coverage ratio	3.18x	3.07x	2.16x	2.57x	2.44x	2.78x

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, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
Asset mix:						
Real property	92%	92%	92%	93%	93%	93%
Real estate loans receivable	8%	8%	8%	7%	7%	7%
Investment mix: ⁽¹⁾						
Senior housing facilities	40%	40%	40%	42%	38%	39%
Skilled nursing facilities	27%	26%	26%	25%	22%	21%
Hospitals	10%	10%	11%	10%	10%	10%
Medical office buildings	23%	24%	23%	23%	25%	25%
Life science buildings	0%	0%	0%	0%	5%	5%
Customer mix: ⁽¹⁾						
Senior Living Communities, LLC	6%	6%	7%	7%	8%	8%
Aurora Health Care, Inc.					5%	5%
Brookdale Senior Living Inc	5%	5%	5%	5%	5%	4%
Signature Healthcare LLC	5%	5%	5%	5%	4%	4%
Emeritus Corporation	4%	4%	4%	4%	4%	3%
Life Care Centers of America, Inc.	5%	4%	3%	3%		

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Remaining customers	75%	76%	76%	76%	74%	76%
Geographic mix: ⁽¹⁾						
Florida	14%	13%	13%	12%	12%	11%
Massachusetts	7%	7%	7%	7%	11%	11%
Texas	11%	11%	11%	11%	10%	10%
California	8%	8%	8%	9%	9%	9%
Wisconsin					7%	7%
Ohio			5%	6%		
Tennessee	5%	5%				
Remaining states	55%	56%	56%	55%	51%	52%

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

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative

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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, 2009, as updated by our Current Report on Form 8-K filed May 10, 2010, under the headings Business, Risk Factors 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):

	March 31, 2009	June 30, 2009	Three Months Ended		March 31, 2010	June 30, 2010
			September 30, 2009	December 31, 2009		
Net operating income:						
Senior housing and care	\$ 98,950	\$ 100,137	\$ 99,252	\$ 101,024	\$ 102,307	\$ 107,620
Medical facilities ⁽¹⁾	35,493	32,728	34,512	44,411	40,517	48,983
Non-segment/corporate	376	363	200	232	231	812
Net operating income	\$ 134,819	\$ 133,228	\$ 133,964	\$ 145,667	\$ 143,055	\$ 157,415

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

Payment coverage. Payment coverage of our operators continues to remain strong. Our overall payment coverage is at 2.03 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.

	March 31, 2008		March 31, 2009		March 31, 2010	
	CBMF	CAMF	CBMF	CAMF	CBMF	CAMF
Senior housing facilities	1.54x	1.31x	1.49x	1.27x	1.48x	1.27x
Skilled nursing facilities	2.28x	1.67x	2.20x	1.61x	2.34x	1.72x
Hospitals	2.52x	1.96x	2.33x	2.01x	2.56x	2.23x
Weighted averages	1.98x	1.54x	1.94x	1.51x	2.03x	1.60x

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 and from us upon written request sent to the Senior Vice President Administration and Corporate Secretary, Health Care REIT, Inc., One SeaGate, Suite 1500, P.O. Box 1475, Toledo, Ohio 43603-1475.

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.

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

	Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%
Cash and cash equivalents at beginning of period	\$ 35,476	\$ 23,370	\$ 12,106	52%
Cash provided from operating activities	191,506	184,333	7,173	4%
Cash used in investing activities	(601,140)	(60,253)	(540,887)	898%
Cash provided from (used in) financing activities	429,581	(67,945)	497,526	n/a
Cash and cash equivalents at end of period	\$ 55,423	\$ 79,505	\$ (24,082)	-30%

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):

	Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%
Gross straight-line rental income	\$ 8,598	\$ 9,927	\$ (1,329)	-13%
Cash receipts due to real property sales	(752)	(3,452)	2,700	-78%
Prepaid rent receipts	(3,316)	(11,692)	8,376	-72%
Amortization related to below (above) market leases, net	1,296	724	572	79%
	\$ 5,826	\$ (4,493)	\$ 10,319	n/a

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):

	Six Months Ended			
	June 30, 2010		June 30, 2009	
	Properties	Amount	Properties	Amount
Real property acquisitions:				
Senior housing facilities	10	\$ 109,492		\$
Medical office buildings	19	246,582		
Total acquisitions	29	356,074		
Less: Assumed debt		(117,892)		
Assumed other assets (liabilities), net		(31,690)		
Cash disbursed for acquisitions		206,492		
Construction in progress additions		162,536		285,724
Capital improvements to existing properties		20,845		12,635
Total cash invested in real property		389,873		298,359
Real property dispositions:				
Senior housing facilities	1	3,437	10	44,877
Skilled nursing facilities	5	34,924	3	18,854
Hospitals			2	40,841
Medical office buildings	3	7,568		
Total dispositions	9	45,929	15	104,572
Less: Gains (losses) on sales of real property		10,033		27,713
Seller financing on sales of real property		(1,470)		
Proceeds from real property sales		54,492		132,285
Net cash investments in real property	20	\$ 335,381	(15)	\$ 166,074

	Six Months Ended					
	June 30, 2010			June 30, 2009		
	Senior Housing and Care	Medical Facilities	Totals	Senior Housing and Care	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 8,617	\$ 15,799	\$ 24,416	\$ 1,921	\$	\$ 1,921
Draws on existing loans	18,838		18,838	34,149	976	35,125

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Sub-total	27,455	15,799	43,254	36,070	976	37,046
Less: Seller financing on property sales		(1,470)	(1,470)			
Net cash advances on real estate loans	27,455	14,329	41,784	36,070	976	37,046
Receipts on real estate loans receivable:						
Loan payoffs	1,599		1,599	18,440		18,440
Principal payments on loans	7,705	116	7,821	11,742	895	12,637
Total receipts on real estate loans	9,304	116	9,420	30,182	895	31,077
Net advances (receipts) on real estate loans	\$ 18,151	\$ 14,213	\$ 32,364	\$ 5,888	\$ 81	\$ 5,969

The contributions to unconsolidated joint ventures represent \$174,574,000 of cash invested by us in the joint venture with Forest City Enterprises. Please see Note 7 to our unaudited financial statements for additional information.

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 six months ended June 30, 2010, we had a net increase of \$66,000,000 on our unsecured line of credit arrangement as

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compared to a net decrease of \$228,000,000 for the same period in 2009. The changes in our senior unsecured notes are due to (i) the issuance of \$494,403,000 of convertible senior unsecured notes in March and June 2010; (ii) the repurchase of \$441,326,000 of convertible senior unsecured notes in March and June 2010; (iii) the issuance of \$450,000,000 of senior unsecured notes in April and June 2010; and (iv) the extinguishment of \$21,723,000 of various senior unsecured notes in March 2009.

The following is a summary of our common stock issuances for the six months ended June 30, 2010 and 2009 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
February 2009 public issuance	5,816,870	\$ 36.85	\$ 214,352	\$ 210,880
2009 Equity shelf plan issuances	400,000	36.05	14,420	13,723
2009 Dividend reinvestment plan issuances	741,282	33.18	24,593	24,593
2009 Totals	6,958,152		\$ 253,365	\$ 249,196
2010 Dividend reinvestment plan issuances	855,343	\$ 41.59	\$ 35,570	\$ 35,570
2010 Option exercises	51,313	38.78	1,990	1,990
2010 Totals	906,656		\$ 37,560	\$ 37,560

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

	Six Months Ended			
	June 30, 2010		June 30, 2009	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 1.3600	\$ 169,069	\$ 1.3600	\$ 151,725
Series D Preferred Stock	0.9844	3,938	0.9844	3,938
Series E Preferred Stock	0.7500	56	0.7500	56
Series F Preferred Stock	0.9532	6,672	0.9532	6,672
Series G Preferred Stock	0.9376	327	0.9376	373
Totals		\$ 180,062		\$ 162,764

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 \$174,574,000 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%. 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 June 30, 2010, we had four outstanding letter of credit obligations totaling \$5,329,057 and expiring between 2010 and 2013. Please see Note 12 to our unaudited consolidated financial statements for additional information.

Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of June 30, 2010 (in thousands):

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Contractual Obligations	Total	Payments Due by Period			
		2010	2011-2012	2013-2014	Thereafter
Unsecured line of credit arrangement	\$ 206,000	\$	\$ 206,000	\$	\$
Senior unsecured notes ⁽¹⁾	2,164,930		76,853	300,000	1,788,077
Secured debt ⁽¹⁾	813,749	8,957	44,085	218,866	541,841
Contractual interest obligations	1,343,802	76,465	301,497	258,963	706,877
Operating lease obligations	183,398	2,259	8,902	8,612	163,625
Purchase obligations	320,786	14,306	306,480		
Other long-term liabilities	5,058	187	1,065	1,903	1,903
Total contractual obligations	\$ 5,037,723	\$ 102,174	\$ 944,882	\$ 788,344	\$ 3,202,323

(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 June 30, 2010, 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 5, 2011. 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 (0.95% at June 30, 2010). The applicable margin is based on certain of our debt ratings and was 0.6% at June 30, 2010. 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 June 30, 2010. We also pay an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. At June 30, 2010, we had \$206,000,000 outstanding under the unsecured line of credit arrangement and estimated total contractual interest obligations of \$2,121,000. Contractual interest obligations are estimated based on the assumption that the balance of \$206,000,000 at June 30, 2010 is constant until maturity at interest rates in effect at June 30, 2010.

We have \$2,164,930,000 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 \$1,066,637,000 at June 30, 2010. 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 \$813,749,000, collateralized by owned properties, with fixed annual interest rates ranging from 4.60% to 7.98%, payable monthly. The carrying values of the properties securing the debt totaled \$1,176,865,000 at June 30, 2010. Total contractual interest obligations on secured debt totaled \$275,044,000 at June 30, 2010.

At June 30, 2010, we had operating lease obligations of \$183,398,000 relating primarily to ground leases at certain of our properties and office space leases.

Purchase obligations are comprised of unfunded construction commitments and contingent purchase obligations. At June 30, 2010, we had outstanding construction financings of \$255,883,000 for leased properties and were committed to providing additional financing of approximately \$310,022,000 to complete construction. At June 30, 2010, we had contingent purchase obligations totaling \$10,764,000. 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 certain non-compete agreements. 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. No contributions by the company are anticipated for the 2010 fiscal year. Benefit payments are expected to total \$4,758,000 during the next five fiscal years and no benefit payments are expected to occur during the succeeding five fiscal years. We use a December 31 measurement date for the SERP. The accrued liability on our balance sheet for the SERP was \$3,577,000 and \$3,287,000 at June 30, 2010 and December 31, 2009, respectively.

In connection with the Windrose merger, we entered into consulting agreements with Fred S. Klipsch and Frederick L. Farrar, which expired in December 2008. We entered into a new consulting agreement with Mr. Farrar in December 2008, which expired in December 2009. Each consultant has 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, Messers. Klipsch and Farrar will receive eight quarterly payments of \$75,000 and \$37,500, respectively, with the first payment to be made on the date of expiration of the agreement. The first payment to Mr. Klipsch was made in December 2008. The first payment to Mr. Farrar was made in January 2010.

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Capital Structure

As of June 30, 2010, we had total equity of \$3,737,125,000 and a total outstanding debt balance of \$3,154,763,000, which represents a debt to total book capitalization ratio of 46%. Our ratio of debt to market capitalization was 36% at June 30, 2010. For the three months ended June 30, 2010, our interest coverage ratio was 3.48x and our fixed charge coverage ratio was 2.78x. Also, at June 30, 2010, we had \$55,423,000 of cash and cash equivalents, \$59,656,000 of restricted cash and \$944,000,000 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 June 30, 2010, 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 July 31, 2010, 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 July 31, 2010, 9,486,174 shares of common stock remained available for issuance under this registration statement. In November 2008, we entered into an Equity Distribution Agreement with UBS Securities LLC 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 July 31, 2010, we had \$139,356,000 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		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	Amount	%	June 30, 2010	June 30, 2009	Amount	%
Net income attributable to common stockholders	\$ 45,646	\$ 59,240	\$(13,594)	-23%	\$ 71,458	\$ 120,359	\$(48,901)	-41%
Funds from operations	92,214	89,207	3,007	3%	155,300	174,529	(19,229)	-11%
EBITDA	136,253	132,843	3,410	3%	241,598	268,875	(27,277)	-10%
Net operating income	157,415	133,228	24,187	18%	300,470	268,048	32,422	12%

Per share data
(fully diluted):

Net income attributable to common stockholders	\$ 0.37	\$ 0.53	\$ (0.16)	-30%	\$ 0.58	\$ 1.09	\$ (0.51)	-47%
Funds from operations	0.74	0.80	(0.06)	-8%	1.25	1.59	(0.34)	-21%
Interest coverage ratio	3.48x	3.74x	-0.26x	-7%	3.29x	3.81x	-0.52x	-14%
Fixed charge coverage ratio	2.78x	3.07x	-0.29x	-9%	2.62x	3.13x	-0.51x	-16%

We evaluate our business and make resource allocations on our two business segments senior housing and care properties and

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medical facilities. Please see Note 17 to our unaudited consolidated financial statements for additional information.

Senior Housing and Care Properties

The following is a summary of our results of operations for the senior housing and care properties segment (dollars in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%	June 30, 2010	June 30, 2009	\$	%
Revenues:								
Rental income	\$ 97,012	\$ 86,231	\$ 10,781	13%	\$ 189,638	\$ 170,879	\$ 18,759	11%
Interest income	8,830	8,910	(80)	-1%	17,405	17,633	(228)	-1%
Other income	1,536	570	966	169%	2,028	1,362	666	49%
	107,378	95,711	11,667	12%	209,071	189,874	19,197	10%
Expenses:								
Interest expense	4,978	2,097	2,881	137%	9,513	2,885	6,628	230%
Depreciation and amortization	28,553	23,693	4,860	21%	54,760	47,192	7,568	16%
Transaction costs	644		644	n/a	5,663		5,663	n/a
Provision for loan losses				n/a		140	(140)	-100%
	34,175	25,790	8,385	33%	69,936	50,217	19,719	39%
Income from continuing operations								
	73,203	69,921	3,282	5%	139,135	139,657	(522)	0%
Discontinued operations:								
Gain on sales of properties	2,639	10,677	(8,038)	-75%	8,368	13,358	(4,990)	-37%
Income from discontinued operations, net	198	1,640	(1,442)	-88%	478	3,453	(2,975)	-86%
Discontinued operations, net	2,837	12,317	(9,480)	-77%	8,846	16,811	(7,965)	-47%
Net income	\$ 76,040	\$ 82,238	\$ (6,198)	-8%	\$ 147,981	\$ 156,468	\$ (8,487)	-5%

The increase in rental income is primarily attributable to the conversion of newly constructed senior housing and care properties subsequent to June 30, 2009 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 and six months ended June 30, 2010 represents \$5,022,000 and \$9,693,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. Interest expense for the three and six months ended June 30, 2009 represents \$2,913,000 and \$4,557,000, 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 and care property secured debt principal activity (dollars in thousands):

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	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 297,151	5.997%	\$ 93,557	6.996%	\$ 298,492	5.998%	\$ 94,234	6.996%
Debt issued	92,265	4.772%	133,071	6.100%	92,265	4.772%	133,071	6.100%
Debt extinguished		0.000%	(20,928)	7.430%		0.000%	(20,928)	7.430%
Principal payments	(1,324)	6.407%	(11,188)	7.923%	(2,665)	6.208%	(11,865)	7.869%
Ending balance	\$ 388,092	5.705%	\$ 194,512	6.283%	\$ 388,092	5.705%	\$ 194,512	6.283%
Monthly averages	\$ 324,699	5.912%	\$ 226,293	6.469%	\$ 313,292	5.947%	\$ 226,635	6.470%

Depreciation and amortization increased primarily as a result of the conversions of newly constructed investment properties subsequent to June 30, 2009. 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 six months ended June 30, 2010 primarily represent a \$5,000,000 termination fee incurred in connection with the transfer of an entrance fee property to a new operator.

During the six months ended June 30, 2010, we sold six senior housing and care properties. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2009 or held for sale at June 30, 2010 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Rental income	\$ 242	\$ 4,426	\$ 852	\$ 9,213
Expenses:				
Interest expense	44	816	180	1,673
Provision for depreciation		1,970	194	4,087
Income from discontinued operations, net	\$ 198	\$ 1,640	\$ 478	\$ 3,453

During the six months ended June 30, 2010, we had one reserved loan payoff resulting in a \$158,000 write-off and related net reduction of the allowance balance. As a result of our quarterly evaluations, we did not further adjust our allowance for loan losses during the six months ended June 30, 2010. The provision for loan losses is related to our critical accounting estimate for the allowance for loan losses and is discussed in Critical Accounting Policies.

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

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%	June 30, 2010	June 30, 2009	\$	%
Revenues:								
Rental income	\$ 54,134	\$ 41,413	\$ 12,721	31%	\$ 104,222	\$ 84,174	\$ 20,048	24%
Interest income	505	1,248	(743)	-60%	978	2,478	(1,500)	-61%
Other income	302	304	(2)	-1%	574	619	(45)	-7%
	54,941	42,965	11,976	28%	105,774	87,271	18,503	21%
Expenses:								
Interest expense	6,424	4,829	1,595	33%	11,943	9,566	2,377	25%
Property operating expenses	12,498	11,240	1,258	11%	25,010	22,288	2,722	12%
Depreciation and amortization	18,898	14,422	4,476	31%	36,078	29,121	6,957	24%
Transaction costs	108		108	n/a	2,803		2,803	n/a
	37,928	30,491	7,437	24%	75,834	60,975	14,859	24%
Income from continuing operations before income taxes and income from unconsolidated joint ventures	17,013	12,474	4,539	36%	29,940	26,296	3,644	14%
Income tax expense	(188)	(113)	(75)	66%	(247)	(257)	10	-4%
Income from unconsolidated joint ventures	1,828		1,828	n/a	2,596		2,596	n/a
Income from continuing operations	18,653	12,361	6,292	51%	32,289	26,039	6,250	24%
Discontinued operations:								
Gain (loss) on sales of properties	675		675	n/a	1,665	14,355	(12,690)	-88%
Income (loss) from discontinued operations, net	(151)	(52)	(99)	190%	(634)	697	(1,331)	n/a
Discontinued operations, net	524	(52)	576	n/a	1,031	15,052	(14,021)	-93%

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Net income (loss)	19,177	12,309	6,868	56%	33,320	41,091	(7,771)	-19%
Less: Net income attributable to noncontrolling interests	(66)	3	(69)	n/a	307	5	302	6040%
Net income (loss) attributable to common stockholders	\$ 19,243	\$ 12,306	\$ 6,937	56%	\$ 33,013	\$ 41,086	\$ (8,073)	-20%

The increase in rental income is primarily attributable to the acquisitions and construction conversions of medical facilities subsequent to June 30, 2009 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 and six months ended June 30, 2010 represents \$6,476,000 and \$12,053,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. Interest expense for the three and six months ended June 30, 2009 represents \$5,238,000 and \$10,451,000, 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. During the six months ended June 30, 2010, we assumed \$106,140,000 of secured debt loans in connection with the acquisition of 17 medical office buildings. The following is a summary of our medical facilities secured debt principal activity (dollars in thousands):

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	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 418,368	6.101%	\$ 352,616	5.799%	\$ 314,065	5.677%	\$ 354,145	5.799%
Debt assumed		0.000%		0.000%	106,140	7.352%		0.000%
Principal payments	(2,798)	6.470%	(1,470)	5.756%	(4,635)	6.234%	(2,999)	5.758%
Ending balance	\$ 415,570	6.098%	\$ 351,146	5.799%	\$ 415,570	6.098%	\$ 351,146	5.799%
Monthly averages	\$ 416,843	6.099%	\$ 351,882	5.799%	\$ 387,749	6.002%	\$ 352,652	5.799%

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.

Transaction costs for the six months ended June 30, 2010 represent costs incurred in connection with the acquisition of new properties.

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 investment with Forest City Enterprises. The following is a summary of our net income from this investment for the periods presented (in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%	June 30, 2010	June 30, 2009	\$	%
Revenues	\$ 9,355	\$	\$ 9,355	n/a	\$ 13,080	\$	\$ 13,080	n/a
Operating expenses	2,716		2,716	n/a	3,817		3,817	n/a
Net operating income	6,639		6,639	n/a	9,263		9,263	n/a
Depreciation and amortization	2,323		2,323	n/a	3,098		3,098	n/a
Interest expense	2,114		2,114	n/a	3,037		3,037	n/a
Asset management fee	374		374	n/a	532		532	n/a
Net income	\$ 1,828	\$	\$ 1,828	n/a	\$ 2,596	\$	\$ 2,596	n/a

During the year ended December 31, 2009, an impairment charge of \$25,223,000 was recorded to reduce the carrying value of eight medical facilities to their estimated fair value less costs to sell. In determining the fair value of the properties, we used a combination of third party appraisals based on market comparable transactions, other market

listings and asset quality as well as management calculations based on projected operating income and published capitalization rates. During the six months ended June 30, 2010, we sold three medical facilities that were held for sale. At June 30, 2010, we had five medical facilities that satisfied the requirements for held for sale treatment. We did not recognize any impairment loss on these properties in 2010 as the fair value less estimated costs to sell exceeded our carrying values. The following illustrates the reclassification impact as a result of classifying medical facilities sold subsequent to January 1, 2009 or held for sale at June 30, 2010 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Rental income	\$ 406	\$ 1,807	\$ 1,188	\$ 4,976
Expenses:				
Interest expense	52	409	110	884
Property operating expenses	505	804	1,712	1,738
Provision for depreciation		646		1,657
Income (loss) from discontinued operations, net	\$ (151)	\$ (52)	\$ (634)	\$ 697

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.

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

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%	June 30, 2010	June 30, 2009	\$	%
Revenues:								
Other income	\$ 812	\$ 363	\$ 449	124%	\$ 1,044	\$ 740	\$ 304	41%
Expenses:								
Interest expense	26,052	19,181	6,871	36%	45,789	40,335	5,454	14%
General and administrative	11,878	11,062	816	7%	28,700	28,424	276	1%
Loss (gain) on extinguishments of debt	7,035		7,035	n/a	25,072	(1,678)	26,750	n/a
	44,965	30,243	14,722	49%	99,561	67,081	32,480	48%
Net loss from continuing operations before income taxes	(44,153)	(29,880)	(14,273)	48%	(98,517)	(66,341)	(32,176)	49%
Income tax (expense) benefit		92	(92)	-100%	(26)	185	(211)	n/a
Net loss	(44,153)	(29,788)	(14,365)	48%	(98,543)	(66,156)	(32,387)	49%
Preferred stock dividends	5,484	5,516	(32)	-1%	10,993	11,039	(46)	0%
Net loss attributable to common stockholders	\$ (49,637)	\$ (35,304)	\$ (14,333)	41%	\$ (109,536)	\$ (77,195)	\$ (32,341)	42%

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		Six Months Ended		Change	
	June 30, 2010	June 30, 2009	\$	%	June 30, 2010	June 30, 2009	\$	%
Senior unsecured notes	\$ 28,305	\$ 27,297	\$ 1,008	4%	\$ 52,371	\$ 55,002	\$ (2,631)	-5%
Secured debt	163		163	n/a	304		304	n/a
Unsecured lines of credit	1,198	1,214	(16)	-1%	2,238	2,898	(660)	-23%
Capitalized interest	(5,276)	(11,026)	5,750	-52%	(12,352)	(20,891)	8,539	-41%
SWAP savings	(40)	(40)		0%	(80)	(80)		0%

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Loan expense	1,702	1,736	(34)	-2%	3,308	3,406	(98)	-3%
Totals	\$ 26,052	\$ 19,181	\$ 6,871	36%	\$ 45,789	\$ 40,335	\$ 5,454	14%

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):

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	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 1,702,129	5.186%	\$ 1,823,277	5.773%	\$ 1,661,853	5.557%	\$ 1,845,000	5.782%
Debt issued	602,009	5.336%		0.000%	944,403	4.489%		0.000%
Debt extinguished	(139,208)	4.750%		0.000%	(441,326)	4.750%	(21,723)	6.504%
Ending balance	\$ 2,164,930	5.256%	\$ 1,823,277	5.773%	\$ 2,164,930	5.256%	\$ 1,823,277	5.773%
Monthly averages	\$ 1,967,829	5.277%	\$ 1,823,277	5.773%	\$ 1,836,697	5.385%	\$ 1,832,587	5.777%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance outstanding at quarter end	\$ 206,000	\$ 342,000	\$ 206,000	\$ 342,000
Maximum amount outstanding at any month end	\$ 431,000	\$ 342,000	\$ 431,000	\$ 559,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$ 293,505	\$ 273,242	\$ 288,337	\$ 344,724
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	1.63%	1.77%	1.55%	1.68%

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. Loan expense for the six months ended June 30, 2010 is consistent with the prior year.

General and administrative expenses as a percentage of consolidated revenues (including revenues from discontinued operations) for the three and six months ended June 30, 2010 were 7.25% and 9.03%, respectively, as compared to 7.61% and 9.73% for the same periods in 2009. The change from prior year is primarily related to \$3,909,000 of non-recurring expenses recognized during the six months ended June 30, 2009 in connection with the departure of Raymond W. Braun who formerly served as President of the company. This was partially offset by the recognition of \$2,853,000 of expenses in connection with a performance-based stock grant during the six months

ended June 30, 2010.

The change in preferred dividends is primarily attributable to preferred stock conversions into common stock. The following is a summary of our preferred stock activity (dollars in thousands):

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	11,450,107	7.697%	11,475,702	7.697%	11,474,093	7.697%	11,516,302	7.696%
Shares converted	(52,855)	7.500%	(609)	6.000%	(76,841)	7.500%	(41,209)	7.478%
Ending balance	11,397,252	7.699%	11,475,093	7.697%	11,397,252	7.699%	11,475,093	7.697%
Monthly averages	11,410,466	7.698%	11,475,245	7.697%	11,434,308	7.698%	11,489,670	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 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.

	March 31, 2009	June 30, 2009	Three Months Ended		March 31, 2010	June 30, 2010
			September 30, 2009	December 31, 2009		
FFO Reconciliation:						
Net income attributable to common stockholders	\$ 61,119	\$ 59,240	\$ 19,130	\$ 31,700	\$ 25,812	\$ 45,646
Depreciation and amortization	41,326	40,731	41,085	41,780	43,581	47,451
Loss (gain) on sales of properties	(17,036)	(10,677)	806	(16,487)	(6,718)	(3,314)
Noncontrolling interests	(87)	(87)	(88)	(703)	(363)	108
Unconsolidated joint ventures					775	2,323
Funds from operations	\$ 85,322	\$ 89,207	\$ 60,933	\$ 56,290	\$ 63,087	\$ 92,214
Average common shares outstanding:						
Basic	108,214	110,864	114,874	122,700	123,270	123,808
Diluted	108,624	111,272	115,289	123,105	123,790	124,324
Per share data:						
Net income attributable to common stockholders						
Basic	\$ 0.56	\$ 0.53	\$ 0.17	\$ 0.26	\$ 0.21	\$ 0.37
Diluted	0.56	0.53	0.17	0.26	0.21	0.37
Funds from operations						
Basic	\$ 0.79	\$ 0.80	\$ 0.53	\$ 0.46	\$ 0.51	\$ 0.74
Diluted	0.79	0.80	0.53	0.46	0.51	0.74

Six Months Ended	
June 30, 2009	June 30, 2010

FFO Reconciliation:

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Net income attributable to common stockholders	\$ 120,359	\$ 71,458
Depreciation and amortization	82,057	91,032
Loss (gain) on sales of properties	(27,713)	(10,033)
Noncontrolling interests	(174)	(255)
Unconsolidated joint ventures		3,098
Funds from operations	\$ 174,529	\$ 155,300
Average common shares outstanding:		
Basic	109,548	123,541
Diluted	109,956	124,059
Per share data:		
Net income attributable to common stockholders		
Basic	\$ 1.10	\$ 0.58
Diluted	1.09	0.58
Funds from operations		
Basic	\$ 1.59	\$ 1.26
Diluted	1.59	1.25

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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 for life science buildings are included in medical facilities. Amounts are in thousands.

	March		Three Months Ended		March	
	31,	June 30,	September	December	31,	June 30,
	2009	2009	30,	31,	2010	2010
			2009	2009		
NOI Reconciliation:						
Total revenues:						
Senior housing and care:						
Rental income:						
Senior housing	\$ 47,704	\$ 47,678	\$ 47,446	\$ 47,856	\$ 52,366	\$ 56,197
Skilled nursing facilities	41,731	42,979	41,983	40,733	40,872	41,057
Sub-total	89,435	90,657	89,429	88,589	93,238	97,254
Interest income	8,723	8,910	9,266	9,046	8,575	8,830
Other income	792	570	557	3,389	494	1,536
Total senior housing and care revenues	98,950	100,137	99,252	101,024	102,307	107,620
Medical facilities:						
Rental income						
Medical office buildings	33,253	32,593	35,008	35,980	40,088	42,056
Hospitals	12,677	10,627	10,884	10,779	10,781	12,484
Life science buildings					3,725	9,355
Sub-total	45,930	43,220	45,892	46,759	54,594	63,895
Interest income	1,230	1,248	1,262	1,201	473	505
Other income	316	304	332	8,415	271	302
Total medical facilities revenues	47,476	44,772	47,486	56,375	55,338	64,702
Corporate other income	376	363	200	232	231	812
Total revenues	146,802	145,272	146,938	157,631	157,876	173,134
Property operating expenses:						
Medical facilities:						
Medical office buildings	11,983	12,044	12,974	11,964	12,992	12,853
Hospitals					728	150
Life science buildings					1,101	2,716
Total property operating expenses	11,983	12,044	12,974	11,964	14,821	15,719
Net operating income:						
Senior housing and care	98,950	100,137	99,252	101,024	102,307	107,620
Medical facilities	35,493	32,728	34,512	44,411	40,517	48,983

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Non-segment/corporate	376	363	200	232	231	812
Net operating income	\$ 134,819	\$ 133,228	\$ 133,964	\$ 145,667	\$ 143,055	\$ 157,415

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	Six Months Ended	
	June 30, 2009	June 30, 2010
NOI Reconciliation:		
Total revenues:		
Senior housing and care:		
Rental income:		
Senior housing	\$ 95,382	\$ 108,561
Skilled nursing facilities	84,710	81,929
Sub-total	180,092	190,490
Interest income	17,633	17,405
Other income	1,362	2,028
Total senior housing and care revenues	199,087	209,923
Medical facilities:		
Rental income		
Medical office buildings	65,846	82,145
Hospitals	23,304	23,265
Life science buildings		13,080
Sub-total	89,150	118,490
Interest income	2,478	978
Other income	619	574
Total medical facilities revenues	92,247	120,042
Corporate other income	740	1,044
Total revenues	292,074	331,009
Property operating expenses:		
Senior housing and care		
Medical facilities:		
Medical office buildings	24,026	25,844
Hospitals		878
Life science buildings		3,817
Non-segment/corporate		
Total property operating expenses	24,026	30,539
Net operating income:		
Senior housing and care	199,087	209,923
Medical facilities	68,221	89,503
Non-segment/corporate	740	1,044
Net operating income	\$ 268,048	\$ 300,470

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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,	June 30,
	2009	2009	30,	31,	2010	2010
			2009	2009		
EBITDA						
Reconciliation:						
Net income	\$ 66,645	\$ 64,759	\$24,685	\$ 36,838	\$ 31,694	\$ 51,064
Interest expense	28,011	27,332	28,833	25,596	29,985	37,550
Income tax expense (benefit)	50	21	(55)	151	84	188
Depreciation and amortization	41,326	40,731	41,085	41,780	43,581	47,451
EBITDA	\$136,032	\$132,843	\$94,548	\$104,365	\$105,344	\$136,253
Interest Coverage Ratio:						
Interest expense	\$ 28,011	\$ 27,332	\$28,833	\$ 25,596	\$ 29,985	\$ 37,550
Non-cash interest expense	(2,772)	(2,844)	(2,895)	(3,387)	(2,841)	(3,659)
Capitalized interest	9,865	11,026	9,975	10,305	7,076	5,276
Total interest	35,104	35,514	35,913	32,514	34,220	39,167
EBITDA	\$136,032	\$132,843	\$94,548	\$104,365	\$105,344	\$136,253
Interest coverage ratio	3.88x	3.74x	2.63x	3.21x	3.08x	3.48x
Fixed Charge Coverage Ratio:						
Total interest	\$ 35,104	\$ 35,514	\$35,913	\$ 32,514	\$ 34,220	\$ 39,167
Secured debt principal payments	2,206	2,177	2,298	2,611	3,378	4,325
Preferred dividends	5,524	5,516	5,520	5,520	5,509	5,484
Total fixed charges	42,834	43,207	43,731	40,645	43,107	48,976
EBITDA	\$136,032	\$132,843	\$94,548	\$104,365	\$105,344	\$136,253
Fixed charge coverage ratio	3.18x	3.07x	2.16x	2.57x	2.44x	2.78x
					Six Months Ended	
					June 30,	June 30,
					2009	2010

EBITDA Reconciliation:		
Net income	\$ 131,403	\$ 82,758
Interest expense	55,343	67,535
Income tax expense	72	273
Depreciation and amortization	82,057	91,032
EBITDA	\$268,875	\$241,598
Interest Coverage Ratio:		
Interest expense	\$ 55,343	\$ 67,535
Non-cash interest expense	(5,616)	(6,500)
Capitalized interest	20,891	12,352
Total interest	70,618	73,387
EBITDA	\$268,875	\$241,598
Interest coverage ratio	3.81x	3.29x
Fixed Charge Coverage Ratio:		
Total interest	\$ 70,618	\$ 73,387
Secured debt principal payments	4,383	7,704
Preferred dividends	11,039	10,993
Total fixed charges	86,040	92,084
EBITDA	\$268,875	\$241,598
Fixed charge coverage ratio	3.13x	2.62x

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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,	June 30,	September	December	March 31,	June 30,
	2009	2009	30,	31,	2010	2010
			2009	2009		
Adjusted EBITDA						
Reconciliation:						
Net income	\$314,613	\$218,112	\$183,478	\$192,927	\$157,976	\$144,282
Interest expense	131,750	122,927	116,406	109,772	111,746	121,964
Income tax expense	77	54	152	168	201	368
Depreciation and amortization	164,797	165,898	165,292	164,923	167,177	173,897
Stock-based compensation expense	11,360	11,034	10,637	9,633	10,619	10,736
Provision for loan losses	234	234	234	23,261	23,121	23,121
Loss (gain) on extinguishment of debt	(2,446)	(2,446)	24,696	25,107	44,822	51,857
Adjusted EBITDA	\$620,385	\$515,813	\$500,895	\$525,791	\$515,662	\$526,225
Adjusted Fixed Charge Coverage Ratio:						
Interest expense	\$131,750	\$122,927	\$116,406	\$109,772	\$111,746	\$121,964
Capitalized interest	29,727	35,690	39,301	41,170	38,381	32,631
Non-cash interest expense	(11,214)	(11,289)	(11,410)	(11,898)	(11,967)	(12,782)
Secured debt principal payments	8,232	8,592	8,810	9,292	10,464	12,612
Preferred dividends	22,579	22,311	22,101	22,079	22,064	22,032
Total fixed charges	181,074	178,231	175,208	170,415	170,688	176,457
Adjusted EBITDA	\$620,385	\$515,813	\$500,895	\$525,791	\$515,662	\$526,225
Adjusted fixed charge coverage ratio	3.43x	2.89x	2.86x	3.09x	3.02x	2.98x

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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, 2009, as updated by our Current Report on Form 8-K filed May 10, 2010, for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2010.

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>Revenue Recognition</u></p> <p>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 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.</p>	<p>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.</p> <p>If our evaluation indicates that collectibility 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.</p> <p>For the six months ended June 30, 2010, we recognized \$18,383,000 of interest income and \$295,900,000 of rental income, including discontinued operations. Cash receipts on leases with deferred revenue provisions were \$4,068,000 as compared to gross straight-line rental income recognized of \$8,598,000 for the six months ended June 30, 2010. At June 30, 2010, our straight-line</p>

receivable balance was \$84,361,000, net of reserves totaling \$273,000. Also at June 30, 2010, we had real estate loans with outstanding balances of \$78,438,000 on non-accrual status.

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**Nature of Critical
Accounting Estimate**
Business Combinations

**Assumptions/Approach
Used**

Substantially all of the properties owned by us are leased under operating leases and are recorded at cost. The cost of our real property is allocated to land, buildings, improvements and intangibles in accordance with U.S. GAAP.

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 six months ended June 30, 2010, we recorded \$67,376,000, \$19,189,000 and \$4,468,000 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 37.9 years, 11.3 years and 9.4 years, respectively, for the six months ended June 30, 2010.

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.

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.

We did not record any impairment charges during the three months ended June 30, 2010.

Fair Value of Derivative Instruments

The valuation of derivative instruments is accounted for in accordance with U.S. GAAP, which requires

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair

companies to record derivatives at fair market value on the balance sheet as assets or liabilities.

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 June 30, 2010, we participated in two interest rate swap agreements which are reported at their fair value of \$7,799,000 and are included in other liabilities and accumulated other comprehensive income.

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

Nature of Critical Accounting Estimate	Assumptions/Approach Used
<p><u>Allowance for Loan Losses</u></p> <p>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.</p>	<p>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.</p> <p>During the six months ended June 30, 2010, we had one reserved loan payoff resulting in a \$158,000 write-off and related net reduction of the allowance balance. As a result of our quarterly evaluations, we did not further adjust our allowance for loan losses during the six months ended June 30, 2010, resulting in an allowance for loan losses of \$5,025,000 relating to real estate loans with outstanding balances of \$91,986,000. Also at June 30, 2010, we had real estate loans with outstanding balances of \$78,438,000 on non-accrual status.</p>

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 and properties; its occupancy rates; its ability to acquire or develop properties; its ability to manage 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 ability to make distributions; its policies and plans regarding investments, financings and other matters; its tax status as a real estate investment trust; its ability to appropriately balance the use of debt and equity; its ability to access capital markets or other sources of funds; its critical accounting policies; and its ability to meet its earnings guidance. When the company uses words such as may, will, intend, should, believe, expect, 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, 2009, as updated by our Current Report on Form 8-K filed May 10, 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):

	June 30, 2010		December 31, 2009	
	Principal balance	Change in fair value	Principal balance	Change in fair value
Senior unsecured notes	\$ 2,164,930	\$(188,174)	\$ 1,661,853	\$(129,350)
Secured debt	685,103	(35,837)	491,094	(22,522)
Totals	\$ 2,850,033	\$(224,011)	\$ 2,152,947	\$(151,872)

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. The August 2009 Swap has an effective date of August 12, 2009 and a maturity date of September 1, 2016. The August 2009 Swap has the economic effect of fixing \$52,198,000 at 3.93% plus a credit spread for seven years. The August 2009 Swap has been designated as a cash flow hedge and we expect 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. The September 2009 Swap has an effective date of September 30, 2009 and a maturity date of October 1, 2016. The September 2009 Swap has the economic effect of fixing \$48,155,000 at 3.2675% plus a credit spread for seven years. The September 2009 Swap has been designated as a cash flow hedge and we expect 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.

Our variable rate debt, including our unsecured line of credit arrangement, is reflected at fair value. At June 30, 2010, we had \$206,000,000 outstanding related to our variable rate line of credit and \$130,664,000 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 \$3,367,000. At December 31, 2009, we had \$140,000,000 outstanding related to our variable rate line of credit and \$131,952,000 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 \$2,720,000.

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.

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, 2009, as updated by our Current Report on Form 8-K filed May 10, 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
April 1, 2010 through April 30, 2010	144	\$ 45.23		
May 1, 2010 through May 31, 2010	117	42.01		
June 1, 2010 through June 30, 2010				
Totals	261	\$ 43.79		

(1) During the three months ended June 30, 2010, 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.

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Item 6. Exhibits

- 3.1 Certificate of Change of Location of Registered Office and of Registered Agent of the company.
- 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. 1, dated as of March 15, 2010, 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 15, 2010, and incorporated herein by reference thereto).
- 4.3 Amendment No. 1 to Supplemental Indenture No. 1, dated as of June 18, 2010, between the company and the Trustee (filed with the Securities and Exchange Commission as Exhibit 4.3 to the company's Form 8-K filed June 18, 2010, and incorporated herein by reference thereto).
- 4.4 Supplemental Indenture No. 2, dated as of April 7, 2010, 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 April 7, 2010, and incorporated herein by reference thereto).
- 4.5 Amendment No. 1 to Supplemental Indenture No. 2, dated as of June 8, 2010, between the company and the Trustee (filed with the Securities and Exchange Commission as Exhibit 4.3 to the company's Form 8-K filed June 8, 2010, and incorporated herein by reference thereto).
- 10.1 Summary of Director Compensation.
- 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 June 30, 2010 and December 31, 2009, (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009,
- (iii) the Consolidated Statements of Equity for the six months ended June 30, 2010 and 2009,
- (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 and (v) the Notes to Unaudited Consolidated Financial Statements tagged as blocks of text.

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: August 6, 2010

By: /s/ GEORGE L. CHAPMAN

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

Date: August 6, 2010

By: /s/ SCOTT A. ESTES

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

Date: August 6, 2010

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

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

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