

HEALTH CARE REIT INC /DE/  
Form 10-Q  
May 10, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2012

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**

(State or other jurisdiction of  
incorporation or organization)

**4500 Dorr Street, Toledo, Ohio**

(Address of principal executive office)  
**(419) 247-2800**

**34-1096634**

(I.R.S. Employer  
Identification No.)

**43615**

(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 30, 2012, the registrant had 213,818,411 shares of common stock outstanding.

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

|  | March 31,<br>2012<br>(Unaudited) | December 31,<br>2011<br>(Note) |
|--|----------------------------------|--------------------------------|
| Assets   |                                  |                                |
|  | (In thousands)                   |                                |
| Real estate investments:                                     |                                  |                                |
| Real property owned:   |                                  |                                |
| Land and land improvements                                   | \$ 1,146,099                     | \$ 1,116,756                   |
| Buildings and improvements                                   | 13,575,137                       | 13,073,747                     |
| Acquired lease intangibles                                   | 497,389                          | 428,199                        |
| Real property held for sale, net of accumulated depreciation | 165,736                          | 36,115                         |
| Construction in progress                                     | 150,750                          | 189,502                        |
| Gross real property owned                                    | 15,535,111                       | 14,844,319                     |
| Less accumulated depreciation and amortization               | (1,272,922)                      | (1,194,476)                    |
| Net real property owned                                      | 14,262,189                       | 13,649,843                     |
| Real estate loans receivable:                                |                                  |                                |
| Real estate loans receivable                                 | 298,868                          | 292,507                        |
| Less allowance for losses on loans receivable                | -                                | -                              |
| Net real estate loans receivable                             | 298,868                          | 292,507                        |
| Net real estate investments                                  | 14,561,057                       | 13,942,350                     |
| Other assets:  |                                  |                                |
| Equity investments   | 239,254                          | 241,722                        |
| Goodwill   | 68,321                           | 68,321                         |
| Deferred loan expenses                                       | 57,252                           | 58,584                         |
| Cash and cash equivalents                                    | 469,217                          | 163,482                        |
| Restricted cash  | 83,499                           | 69,620                         |
| Receivables and other assets                                 | 381,134                          | 380,527                        |
| Total other assets   | 1,298,677                        | 982,256                        |
| Total assets   | \$ 15,859,734                    | \$ 14,924,606                  |
| Liabilities and equity                                       |                                  |                                |
| Liabilities:   |                                  |                                |
| Borrowings under unsecured line of credit arrangement        | \$ 5,000                         | \$ 610,000                     |
| Senior unsecured notes                                       | 4,436,103                        | 4,434,107                      |
| Secured debt   | 2,353,856                        | 2,112,649                      |
| Capital lease obligations                                    | 83,020                           | 83,996                         |
| Accrued expenses and other liabilities                       | 393,202                          | 371,557                        |
| Total liabilities  | 7,271,181                        | 7,612,309                      |
| Redeemable noncontrolling interests                          | 34,535                           | 33,650                         |
| Equity:  |                                  |                                |

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|   |               |               |
|---|---------------|---------------|
| Preferred stock                                   | 1,297,917     | 1,010,417     |
| Common stock                                      | 213,529       | 192,299       |
| Capital in excess of par value                    | 8,088,573     | 7,019,714     |
| Treasury stock                                    | (17,265)      | (13,535)      |
| Cumulative net income                             | 1,952,320     | 1,893,806     |
| Cumulative dividends                              | (3,134,255)   | (2,972,129)   |
| Accumulated other comprehensive income (loss)     | (11,642)      | (11,928)      |
| Other equity                                      | 7,208         | 6,120         |
| Total Health Care REIT, Inc. stockholders' equity | 8,396,385     | 7,124,764     |
| Noncontrolling interests                          | 157,633       | 153,883       |
| Total equity                                      | 8,554,018     | 7,278,647     |
| Total liabilities and equity                      | \$ 15,859,734 | \$ 14,924,606 |

NOTE: The consolidated balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

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

|   | Three Months Ended<br>March 31,       |            |
|---|---------------------------------------|------------|
|   | 2012                                  | 2011       |
|   | (In thousands, except per share data) |            |
| Revenues:   |                                       |            |
| Rental income   | \$ 267,358                            | \$ 159,937 |
| Resident fees and services  | 158,174                               | 71,286     |
| Interest income   | 8,141                                 | 11,709     |
| Other income  | 1,686                                 | 2,824      |
| Total revenues  | 435,359                               | 245,756    |
| Expenses:   |                                       |            |
| Interest expense  | 92,712                                | 56,902     |
| Property operating expenses   | 129,268                               | 63,563     |
| Depreciation and amortization   | 125,955                               | 70,743     |
| Transaction costs   | 5,579                                 | 36,065     |
| General and administrative  | 27,751                                | 17,714     |
| Unrealized loss on derivatives  | 555                                   | -          |
| Provision for loan losses   | -                                     | 248        |
| Total expenses  | 381,820                               | 245,235    |
| Income (loss) from continuing operations before income taxes<br>and income from unconsolidated entities | 53,539                                | 521        |
| Income tax (expense) benefit  | (1,470)                               | (129)      |
| Income from unconsolidated entities   | 1,532                                 | 1,543      |
| Income (loss) from continuing operations  | 53,601                                | 1,935      |
| Discontinued operations:  |                                       |            |
| Gain (loss) on sales of properties  | 769                                   | 26,156     |
| Impairment of assets  | -                                     | (202)      |
| Income (loss) from discontinued operations, net   | 3,088                                 | 3,921      |
| Discontinued operations, net  | 3,857                                 | 29,875     |
| Net income  | 57,458                                | 31,810     |
| Less: Preferred stock dividends   | 19,207                                | 8,680      |
| Less: Net income (loss) attributable to<br>noncontrolling interests <sup>(1)</sup>                      | (1,056)                               | (242)      |
| Net income (loss) attributable to common stockholders   | \$ 39,307                             | \$ 23,372  |
| Average number of common shares outstanding:  |                                       |            |
| Basic   | 199,661                               | 154,945    |
| Diluted   | 201,658                               | 155,485    |
| Earnings per share:   |                                       |            |
| Basic:  |                                       |            |
| Income (loss) from continuing operations<br>attributable to common stockholders                         | \$ 0.18                               | \$ (0.04)  |
| Discontinued operations, net  | 0.02                                  | 0.19       |
| Net income (loss) attributable to common stockholders*  | \$ 0.20                               | \$ 0.15    |

|   |    |        |           |
|---|----|--------|-----------|
| Diluted:  |    |        |           |
| Income (loss) from continuing operations                              |    |        |           |
| attributable to common stockholders                                   | \$ | 0.18   | \$ (0.04) |
| Discontinued operations, net  |    | 0.02   | 0.19      |
| Net income (loss) attributable to common stockholders*                | \$ | 0.19   | \$ 0.15   |
| Dividends declared and paid per common share                          | \$ | 0.74   | \$ 0.69   |
| Total comprehensive income (loss) attributable to common stockholders | \$ | 57,744 | \$ 32,614 |

\* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

**CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)****HEALTH CARE REIT, INC. AND SUBSIDIARIES**

(in thousands)

|  | Three Months Ended March 31, 2012 |                 |                                      |                   |                          |                         |   |                 |                             |        |
|--|-----------------------------------|-----------------|--------------------------------------|-------------------|--------------------------|-------------------------|---|-----------------|-----------------------------|--------|
|  | Preferred<br>Stock                | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Treasury<br>Stock | Cumulative<br>Net Income | Cumulative<br>Dividends | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Other<br>Equity | Noncontrolling<br>Interests | Total  |
| Balances at beginning of period  | \$ 1,010,417                      | \$ 192,299      | \$ 7,019,714                         | \$ (13,535)       | \$ 1,893,806             | \$ (2,972,129)          | \$ (11,928)   | \$ 6,120        | \$ 153,883                  | \$ 7,2 |
| Comprehensive income:  |                                   |                 |                                      |                   |                          |                         |   |                 |                             |        |
| Net income (loss)  |                                   |                 |                                      |                   | 58,514                   |                         |   |                 | (678)                       |        |
| Other comprehensive income:  |                                   |                 |                                      |                   |                          |                         |   |                 |                             |        |
| Unrealized gain (loss) on equity investments                                     |                                   |                 |                                      |                   |                          |                         | 8   |                 |                             |        |
| Cash flow hedge activity   |                                   |                 |                                      |                   |                          |                         | 278   |                 |                             |        |
| Total comprehensive income   |                                   |                 |                                      |                   |                          |                         |   |                 |                             |        |
| Contributions by noncontrolling interests  |                                   |                 | 874                                  |                   |                          |                         |   |                 | 7,227                       |        |
| Distributions to noncontrolling interests  |                                   |                 |                                      |                   |                          |                         |   |                 | (2,799)                     |        |
| Amounts related to issuance of common stock from dividend reinvestment and stock |                                   | 530             | 35,546                               | (3,730)           |                          |                         |   | (294)           |                             |        |

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|   |              |            |              |             |              |                |             |          |            |        |
|---|--------------|------------|--------------|-------------|--------------|----------------|-------------|----------|------------|--------|
| incentive plans, net of forfeitures       |              |            |              |             |              |                |             |          |            |        |
| Proceeds from issuance of common stock    |              | 20,700     | 1,042,038    |             |              |                |             |          |            | 1,0    |
| Proceeds from issuance of preferred stock | 287,500      |            | (9,599)      |             |              |                |             |          |            | 2      |
| Option compensation expense               |              |            |              |             |              |                |             | 1,382    |            |        |
| Cash dividends paid:                      |              |            |              |             |              |                |             |          |            |        |
| Common stock cash dividends               |              |            |              |             |              | (142,919)      |             |          |            | (14    |
| Preferred stock cash dividends            |              |            |              |             |              | (19,207)       |             |          |            | (1     |
| Balances at end of period                 | \$ 1,297,917 | \$ 213,529 | \$ 8,088,573 | \$ (17,265) | \$ 1,952,320 | \$ (3,134,255) | \$ (11,642) | \$ 7,208 | \$ 157,633 | \$ 8,5 |

Three Months Ended March 31, 2011

|  | Preferred Stock | Common Stock | Capital in Excess of Par Value | Treasury Stock | Cumulative Net Income | Cumulative Dividends | Accumulated Other Comprehensive Income (Loss) | Other Equity | Noncontrolling Interests | T      |
|--|-----------------|--------------|--------------------------------|----------------|-----------------------|----------------------|---|--------------|--------------------------|--------|
| Balances at beginning of period              | \$ 291,667      | \$ 147,155   | \$ 4,932,468                   | \$ (11,352)    | \$ 1,676,196          | \$ (2,427,881)       | \$ (11,099)                                   | \$ 5,697     | \$ 130,249               | \$ 4,7 |
| Comprehensive income:                        |                 |              |                                |                |                       |                      |   |              |                          |        |
| Net income (loss)                            |                 |              |                                |                | 32,052                |                      |   |              | (250)                    |        |
| Other comprehensive income:                  |                 |              |                                |                |                       |                      |   |              |                          |        |
| Unrealized gain (loss) on equity investments |                 |              |                                |                |                       |                      | 322   |              |                          |        |
| Cash flow hedge activity                     |                 |              |                                |                |                       |                      | 482   |              |                          |        |

|  |              |            |              |             |              |                |             |          |            |              |
|--|--------------|------------|--------------|-------------|--------------|----------------|-------------|----------|------------|--------------|
| Total comprehensive income   |              |            |              |             |              |                |             |          |            |              |
| Contributions by noncontrolling interests  |              | 6,017      |              |             |              |                |             |          | 27,486     |              |
| Distributions to noncontrolling interests  |              |            |              |             |              |                |             |          | (7,023)    |              |
| Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures | 658          | 34,486     | (2,128)      |             |              |                |             | (353)    |            |              |
| Proceeds from issuance of common stock   | 28,750       | 1,329,944  |              |             |              |                |             |          |            | 1,358,694    |
| Proceeds from issuance of preferred stock  | 718,750      | (22,009)   |              |             |              |                |             |          |            | 696,741      |
| Option compensation expense  |              |            |              |             |              |                |             | 1,039    |            |              |
| Cash dividends paid:   |              |            |              |             |              |                |             |          |            |              |
| Common stock cash dividends  |              |            |              |             |              |                | (102,040)   |          |            | (102,040)    |
| Preferred stock cash dividends   |              |            |              |             |              |                | (8,680)     |          |            | (8,680)      |
| Balances at end of period  | \$ 1,010,417 | \$ 176,563 | \$ 6,280,906 | \$ (13,480) | \$ 1,708,248 | \$ (2,538,601) | \$ (10,295) | \$ 6,383 | \$ 150,462 | \$ 6,703,582 |

See notes to unaudited consolidated financial statements



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

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2012                            | 2011      |
|  | (In thousands)                  |           |
| Operating activities   |                                 |           |
| Net income   | \$ 57,458                       | \$ 31,810 |
| Adjustments to reconcile net income to<br>net cash provided from (used in) operating activities: |                                 |           |
| Depreciation and amortization  | 127,422                         | 74,768    |
| Other amortization expenses  | 4,984                           | 4,338     |
| Provision for loan losses  | -                               | 248       |
| Impairment of assets   | -                               | 202       |
| Stock-based compensation expense   | 11,323                          | 5,593     |
| Unrealized loss on derivative  | 555                             | -         |
| Income from unconsolidated entities  | (1,532)                         | (1,543)   |
| Rental income in excess of cash received   | (10,125)                        | (1,418)   |
| Amortization related to above (below) market<br>leases, net                                      | (252)                           | (658)     |
| Loss (gain) on sales of properties   | (769)                           | (26,156)  |
| Distributions by unconsolidated entities   | 4,009                           | -         |
| Increase (decrease) in accrued expenses and other<br>liabilities                                 | (6,156)                         | 56,247    |
| Decrease (increase) in receivables and other assets  | (12,873)                        | (29,644)  |
| Net cash provided from (used in) operating activities  | 174,044                         | 113,787   |
| Investing activities   |                                 |           |
| Investment in real property, net of cash acquired  | (570,200)                       | (683,352) |
| Capitalized interest   | (2,420)                         | (4,665)   |
| Investment in real estate loans receivable   | (10,661)                        | (23,112)  |
| Other investments, net of payments   | 22,438                          | (2,815)   |
| Principal collected on real estate loans receivable  | 4,301                           | 12,341    |
| Contributions to unconsolidated entities   | -                               | (602)     |
| Distributions by unconsolidated entities   | -                               | 980       |
| Decrease (increase) in restricted cash   | (13,879)                        | 45,797    |
| Proceeds from sales of real property   | 32,584                          | 44,048    |
| Net cash provided from (used in) investing activities  | (537,837)                       | (611,380) |
| Financing activities   |                                 |           |
| Net increase (decrease) under unsecured lines of credit<br>arrangements                          | (605,000)                       | (300,000) |
| Proceeds from issuance of senior unsecured notes   | -                               | 1,381,086 |
| Payments to extinguish senior unsecured notes  | (22)                            | -         |
| Net proceeds from the issuance of secured debt   | 111,000                         | -         |
| Payments on secured debt   | (42,568)                        | (5,906)   |
| Net proceeds from the issuance of common stock   | 1,087,777                       | 1,388,118 |

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|  |            |    |           |
|--|------------|----|-----------|
| Net proceeds from the issuance of preferred stock        | 277,901    |    | 696,741   |
| Decrease (increase) in deferred loan expenses            | (2,324)    |    | (8,339)   |
| Contributions by noncontrolling interests <sup>(1)</sup> | 8,367      |    | 95        |
| Distributions to noncontrolling interests <sup>(1)</sup> | (3,477)    |    | (7,057)   |
| Cash distributions to stockholders                       | (162,126)  |    | (110,720) |
| Net cash provided from (used in) financing activities    | 669,528    |    | 3,034,018 |
| Increase (decrease) in cash and cash equivalents         | 305,735    |    | 2,536,425 |
| Cash and cash equivalents at beginning of period         | 163,482    |    | 131,570   |
| Cash and cash equivalents at end of period               | \$ 469,217 | \$ | 2,667,995 |
| Supplemental cash flow information:                      |            |    |           |
| Interest paid  | \$ 96,426  | \$ | 35,081    |
| Income taxes paid  | 2,596      |    | 31        |

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

**HEALTH CARE REIT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business**

Health Care REIT, Inc., an S&P 500 company with headquarters in Toledo, Ohio, is an equity real estate investment trust (“REIT”) that invests in seniors housing and health care real estate. Our full service platform also offers property management and development services to our customers. As of March 31, 2012, our broadly diversified portfolio consisted of 956 properties in 46 states. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

**2. Accounting Policies and Related Matters**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily an indication of the results that may be expected for the year ending December 31, 2012. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

*New Accounting Standards*

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, “Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS” (“ASU 2011-04”), which requires incremental fair value disclosures in the notes to the financial statements. We have adopted ASU 2011-04 effective January 1, 2012. The adoption of this guidance did not have a material impact on our consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. We have adopted ASU 2011-05 effective January 1, 2012 and presented total comprehensive income on the consolidated statements of comprehensive income. Further disclosures including reconciliation from net income to total comprehensive income will be required on an annual basis. The provisions of ASU No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05” delayed the requirement to present certain reclassifications on the face of the financial statements.

### **3. Real Property Acquisition and Development**

#### *Seniors Housing Triple-net Activity*

During the three months ended March 31, 2012, we completed the acquisition of three seniors housing properties operated by Senior Lifestyle Management LLC. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with our accounting policies. Also during the three months ended March 31, 2012, we finalized our purchase price allocation of the previously acquired Genesis real estate assets. There were no material changes in the Genesis HealthCare Corporation purchase accounting allocation from those previously disclosed in Note 3 to our Annual Report on Form 10-K for the year ended December 31, 2011. The following is our purchase price allocations and other seniors housing triple-net real property investment activity for the periods presented (in thousands):

## HEALTH CARE REIT, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

|  | Three Months Ended       |                          |
|--|--------------------------|--------------------------|
|  | March 31, 2012<br>Amount | March 31, 2011<br>Amount |
| Land and land improvements                                 | \$ 5,950                 | \$ 8,990                 |
| Buildings and improvements                                 | 89,333                   | 105,340                  |
| Receivables and other assets                               | -                        | 329                      |
| Total assets acquired                                      | 95,283                   | 114,659                  |
| Assumed debt   | -                        | (7,054)                  |
| Accrued expenses and other liabilities                     | (232)                    | (1,655)                  |
| Total liabilities assumed                                  | (232)                    | (8,709)                  |
| Cash disbursed for acquisitions                            | 95,051                   | 105,950                  |
| Construction in progress additions                         | 38,467                   | 31,892                   |
| Less: Capitalized interest                                 | (1,242)                  | (976)                    |
| Cash disbursed for construction in progress                | 37,225                   | 30,916                   |
| Capital improvements to existing properties                | 9,948                    | 3,235                    |
| Total cash invested in real property, net of cash acquired | \$ 142,224               | \$ 140,101               |

*Seniors Housing Operating Activity*

During the three months ended March 31, 2012, we acquired six seniors housing properties which were added to our partnership with Belmont Village, LP to own and operate a portfolio of seniors housing communities. We own a 95% partnership interest and Belmont owns the remaining 5% interest and continues to manage the communities. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities as well as the noncontrolling interests based upon their respective fair values in accordance with our accounting policies. The following is a summary of our seniors housing operating real property investment activity for the periods presented (in thousands):

|                                       | Three Months Ended       |                          |
|---------------------------------------|--------------------------|--------------------------|
|                                       | March 31, 2012<br>Amount | March 31, 2011<br>Amount |
| Land and land improvements            | \$ 18,980                | \$ 71,610                |
| Building and improvements             | 174,467                  | 968,727                  |
| Acquired lease intangibles            | 16,656                   | 88,285                   |
| Restricted cash                       | -                        | 8,185                    |
| Investment in unconsolidated entities | -                        | 11,516                   |
| Receivables and other assets          | 1,182                    | 3,455                    |
| Total assets acquired <sup>(1)</sup>  | 211,285                  | 1,151,778                |

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|   |            |            |
|---|------------|------------|
| Secured debt  | -          | (585,657)  |
| Accrued expenses and other liabilities                        | (1,649)    | (39,043)   |
| Total liabilities assumed                                     | (1,649)    | (624,700)  |
| Capital in excess of par                                      | -          | (6,017)    |
| Noncontrolling interests                                      | (2,054)    | (27,559)   |
| Non-cash acquisition related activity                         | -          | (24,646)   |
| Cash disbursed for acquisitions                               | 207,582    | 468,856    |
| Capital improvements to existing properties                   | 3,040      | 2,267      |
| Total cash invested in real property, net of cash<br>acquired | \$ 210,622 | \$ 471,123 |

(1) Excludes \$1,619,000 and \$34,973,000 of cash acquired during the three months ended March 31, 2012 and 2011, respectively.

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

During the three months ended March 31, 2012, we acquired 12 medical office buildings and one hospital. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with our accounting policies. The following is a summary of our medical facilities real property investment activity for the periods presented (in thousands):

|   | Three Months Ended            |                |
|---|-------------------------------|----------------|
|   | March 31, 2012 <sup>(2)</sup> | March 31, 2011 |
|   | Amount                        | Amount         |
| Land and land improvements                  | \$ 9,509                      | \$ 6,981       |
| Buildings and improvements                  | 320,481                       | -              |
| Acquired lease intangibles                  | 39,619                        | -              |
| Receivables and other assets                | 4,158                         | -              |
| Total assets acquired                       | 373,767                       | 6,981          |
| Secured debt                                | (172,856)                     | -              |
| Accrued expenses and other liabilities      | (9,255)                       | -              |
| Total liabilities assumed                   | (182,111)                     | -              |
| Cash disbursed for acquisitions             | 191,656                       | 6,981          |
| Construction in progress additions:         | 40,557                        | 82,590         |
| Less: Capitalized interest                  | (1,178)                       | (3,689)        |
| Accruals <sup>(1)</sup>                     | (20,752)                      | (19,130)       |
| Cash disbursed for construction in progress | 18,627                        | 59,771         |
| Capital improvements to existing properties | 7,071                         | 5,376          |
| Total cash invested in real property        | \$ 217,354                    | \$ 72,128      |

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

(2) Includes acquisitions with an aggregate purchase price of \$363,136,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

*Development Conversions*

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

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2012     | March 31, 2011 |
| Development projects:                      |                    |                |
| Seniors housing triple-net                 | \$ 23,859          | \$ -           |
| Medical facilities                         | 93,676             | 105,940        |
| Total development projects                 | 117,535            | 105,940        |
| Expansion projects                         | 240                | 11,524         |
| Total construction in progress conversions | \$ 117,775         | \$ 117,464     |

*Transaction Costs*

Transaction costs primarily represent costs incurred with property acquisitions, including due diligence costs, fees for legal and valuation services and termination of pre-existing relationships computed based on the fair value of the assets acquired, lease termination fees and other acquisition-related costs.

## HEALTH CARE REIT, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 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):

|   | March 31, 2012 | December 31, 2011 |
|---|----------------|-------------------|
| Assets:                                       |                |                   |
| In place lease intangibles                    | \$ 385,367     | \$ 332,645        |
| Above market tenant leases                    | 42,597         | 35,973            |
| Below market ground leases                    | 58,604         | 51,316            |
| Lease commissions                             | 10,821         | 8,265             |
| Gross historical cost                         | 497,389        | 428,199           |
| Accumulated amortization                      | (176,365)      | (148,380)         |
| Net book value                                | \$ 321,024     | \$ 279,819        |
| Weighted-average amortization period in years | 16.6           | 17.0              |
| Liabilities:                                  |                |                   |
| Below market tenant leases                    | \$ 70,304      | \$ 67,284         |
| Above market ground leases                    | 5,894          | 5,020             |
| Gross historical cost                         | 76,198         | 72,304            |
| Accumulated amortization                      | (22,971)       | (21,387)          |
| Net book value                                | \$ 53,227      | \$ 50,917         |
| Weighted-average amortization period in years | 12.6           | 12.3              |

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

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2012                         | 2011     |
| Rental income related to above/below market tenant leases, net               | \$ 552                       | \$ 926   |
| Property operating expenses related to above/below market ground leases, net | (300)                        | (268)    |
|  | (27,605)                     | (14,610) |

Depreciation and amortization related to in place  
lease intangibles and lease commissions

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

|            |    | Assets  |    | Liabilities |
|------------|----|---------|----|-------------|
| 2012       | \$ | 83,732  | \$ | 5,040       |
| 2013       |    | 39,211  |    | 6,191       |
| 2014       |    | 23,784  |    | 5,734       |
| 2015       |    | 21,440  |    | 4,750       |
| 2016       |    | 23,471  |    | 4,393       |
| Thereafter |    | 129,386 |    | 27,119      |
| Totals     | \$ | 321,024 | \$ | 53,227      |
|            | 10 |         |    |             |

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**HEALTH CARE REIT, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****5. Dispositions, Assets Held for Sale and Discontinued Operations**

During the three months ended March 31, 2012, we sold four properties for net gains of \$769,000. At March 31, 2012, we had one medical facility and 32 seniors housing facilities that satisfied the requirements for held for sale treatment and such properties were properly recorded at the lesser of their estimated fair value less costs to sell or carrying value. The following is a summary of our real property disposition activity for the periods presented (in thousands):

|                                     | Three Months Ended |                |
|-------------------------------------|--------------------|----------------|
|                                     | March 31, 2012     | March 31, 2011 |
| Real property dispositions:         |                    |                |
| Seniors housing triple-net          | \$ -               | \$ 17,892      |
| Medical facilities                  | 31,815             | -              |
| Total dispositions                  | 31,815             | 17,892         |
| Add: Gain on sales of real property | 769                | 26,156         |
| Proceeds from real property sales   | \$ 32,584          | \$ 44,048      |

We have reclassified the income and expenses attributable to all properties sold prior to and held for sale at March 31, 2012 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 |                |
|---|--------------------|----------------|
|   | 2012               | March 31, 2011 |
| Revenues:                                       |                    |                |
| Rental income                                   | \$ 5,991           | \$ 12,125      |
| Expenses:                                       |                    |                |
| Interest expense                                | 1,010              | 2,428          |
| Property operating expenses                     | 426                | 1,751          |
| Provision for depreciation                      | 1,467              | 4,025          |
| Income (loss) from discontinued operations, net | \$ 3,088           | \$ 3,921       |

**6. Real Estate Loans Receivable**

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

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|   | March 31, 2012                   |                       |          | Three Months Ended<br>March 31, 2011 |                       |           |
|---|----------------------------------|-----------------------|----------|--------------------------------------|-----------------------|-----------|
|   | Seniors<br>Housing<br>Triple-net | Medical<br>Facilities | Totals   | Seniors<br>Housing<br>Triple-net     | Medical<br>Facilities | Totals    |
| Advances on real estate loans<br>receivable:    |                                  |                       |          |                                      |                       |           |
| Investments in new<br>loans                     | \$ -                             | \$ -                  | \$ -     | \$ 11,807                            | \$ -                  | \$ 11,807 |
| Draws on existing<br>loans                      | 10,467                           | 194                   | 10,661   | 8,824                                | 2,481                 | 11,305    |
| Net cash advances on<br>real estate loans       | 10,467                           | 194                   | 10,661   | 20,631                               | 2,481                 | 23,112    |
| Receipts on real estate loans<br>receivable:    |                                  |                       |          |                                      |                       |           |
| Loan payoffs                                    | -                                | -                     | -        | 7,607                                | -                     | 7,607     |
| Principal payments on<br>loans                  | 3,689                            | 612                   | 4,301    | 2,653                                | 2,081                 | 4,734     |
| Total receipts on real<br>estate loans          | 3,689                            | 612                   | 4,301    | 10,260                               | 2,081                 | 12,341    |
| Net advances (receipts) on real<br>estate loans | \$ 6,778                         | \$ (418)              | \$ 6,360 | \$ 10,371                            | \$ 400                | \$ 10,771 |

We recorded no provision for loan losses during the three months ended March 31, 2012. At March 31, 2012, we had real estate loans with outstanding balances of \$12,956,000 on non-accrual status but no allowance for loan losses.

**HEALTH CARE REIT, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****7. Investments in Unconsolidated Entities**

During the year ended December 31, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located at University Park in Cambridge, Massachusetts, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. In connection with these transactions, we invested \$174,692,000 of cash which was recorded as an investment in unconsolidated entities on the balance sheet. 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 statement of comprehensive income as income from unconsolidated entities. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$4,818,000 at March 31, 2012 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 entities. In addition, at March 31, 2012, we had other investments in unconsolidated entities with our ownership ranging from 10% to 50%.

**8. Customer Concentration**

The following table summarizes certain information about our customer concentration as of March 31, 2012 (dollars in thousands):

| Concentration by investment: <sup>(1)</sup> | Number of Properties <sup>(2)</sup> | Total Investment <sup>(2)</sup> | Percent of Investment <sup>(3)</sup> |
|---|-------------------------------------|---------------------------------|--------------------------------------|
| Genesis HealthCare Corporation              | 150                                 | \$ 2,455,168                    | 17%                                  |
| Merrill Gardens, LLC                        | 48                                  | 1,118,999                       | 8%                                   |
| Benchmark Senior Living                     | 35                                  | 869,806                         | 6%                                   |
| Brandywine Senior Living, LLC               | 25                                  | 724,308                         | 5%                                   |
| Senior Living Communities, LLC              | 12                                  | 602,453                         | 4%                                   |
| Remaining portfolio                         | 673                                 | 8,790,324                       | 60%                                  |
| Totals                                      | 943                                 | \$ 14,561,057                   | 100%                                 |

(1) Merrill Gardens and Benchmark are in our seniors housing operating segment whereas the other top five customers are in our seniors housing triple-net segment.

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

(3) Investments with our top five customers comprised 41% of total investments at December 31, 2011.

### 9. Borrowings Under Line of Credit Arrangements and Related Items

At March 31, 2012, we had a \$2,000,000,000 unsecured line of credit arrangement with a consortium of 31 banks with an option to upsize the facility by up to an additional \$500,000,000 through an accordion feature, allowing for the aggregate commitment of up to \$2,500,000,000. The revolving credit facility is scheduled to expire July 27, 2015. 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 (1.60% at March 31, 2012). The applicable margin is based on certain of our debt ratings and was 1.35% at March 31, 2012. 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 0.25% at March 31, 2012. Principal is due upon expiration of the agreement. In addition, at March 31, 2012, we had a \$5,000,000 unsecured revolving demand note outstanding and bearing interest at 1-month LIBOR plus 110 basis points.

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

|  |    | Three Months Ended March 31, |            |
|--|----|------------------------------|------------|
|  |    | 2012                         | 2011       |
| Balance outstanding at quarter end   | \$ | 5,000                        | \$ -       |
| Maximum amount outstanding at any month end  | \$ | 897,000                      | \$ 495,000 |
| Average amount outstanding (total of daily principal balances divided by days in period)           | \$ | 480,703                      | \$ 319,222 |
| Weighted average interest rate (actual interest expense divided by average borrowings outstanding) |    | 1.65%                        | 1.59%      |

## HEALTH CARE REIT, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**10. Senior Unsecured Notes and Secured Debt**

We have \$4,436,103,000 of senior unsecured notes with annual stated interest rates ranging from 3.00% to 8.00%. The carrying amounts of the senior unsecured notes represent the par value of \$4,464,905,000 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 March 31, 2011, we issued \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041, generating net proceeds of \$1,381,086,000.

We have secured debt totaling \$2,353,856,000, collateralized by owned properties, with annual interest rates ranging from 1.2% to 8.0%. The carrying amounts of the secured debt represent the par value of \$2,336,082,000 adjusted for any unamortized fair value adjustments on loan assumptions. The carrying values of the properties securing the debt totaled \$4,388,367,000 at March 31, 2012. During the three months ended March 31, 2012, we assumed \$158,290,000 of first mortgage loans principal with an average rate of 5.9% secured by seven properties. During the three months ended March 31, 2012, we issued \$111,000,000 of first mortgage loans principal with an average rate of 4.2% secured by two properties. During the three months ended March 31, 2012, we extinguished \$33,092,000 of first mortgage loans principal with an average rate of 4.3% secured by four properties.

Please see Note 19 regarding senior unsecured note and secured debt activity that occurred subsequent to March 31, 2012.

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of March 31, 2012, we were in compliance with all of the covenants under our debt agreements.

At March 31, 2012, the annual principal payments due on these debt obligations were as follows (in thousands):

|            | Senior<br>Unsecured Notes <sup>(1)</sup> | Secured<br>Debt <sup>(1)</sup> | Totals       |
|------------|--|--------------------------------|--------------|
| 2012       | \$ 202,416 <sup>(2)</sup>                | \$ 224,279 <sup>(3)</sup>      | \$ 426,695   |
| 2013       | 300,000                                  | 170,693                        | 470,693      |
| 2014       | -  | 198,996                        | 198,996      |
| 2015       | 250,000                                  | 182,288                        | 432,288      |
| 2016       | 700,000                                  | 274,219                        | 974,219      |
| Thereafter | 3,012,489                                | 1,285,607                      | 4,298,096    |
| Totals     | \$ 4,464,905                             | \$ 2,336,082                   | \$ 6,800,987 |

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

(2) \$125,563,000 of convertible senior notes were redeemed in April 2012. Please see Note 19 for additional information.

(3) Approximately \$185,000,000 of secured debt was extinguished in April 2012. Please see Note 19 for additional information.

## 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 such interest rate exposures. These decisions are principally based on our policy to manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. In addition, the Chartwell transaction discussed in Note 19 exposes us to the potential loss associated with adverse changes in the Canadian Dollar to U.S. Dollar exchange rate. We elected to manage this risk through the use of a forward exchange contract.

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

### *Interest Rate Swap Contracts Designated as Cash Flow Hedges*

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI"), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. As of March 31, 2012, we had eight interest

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

rate swaps for a total aggregate notional amount of \$135,445,000. The swaps hedge interest payments associated with long-term LIBOR based borrowings and mature between December 31, 2012 and December 31, 2013. Approximately \$2,152,000 of losses, which are included in accumulated other comprehensive income (“AOCI”), are expected to be reclassified into earnings in the next 12 months.

*Forward Exchange Contracts not Designated as Hedging Instruments*

On February 15, 2012, we entered into a forward exchange contract to purchase \$250,000,000 Canadian Dollars at a fixed rate in the future. The forward contract was used to limit exposure to fluctuations in the Canadian Dollar to U.S. Dollar exchange rate associated with our initial cash investment funded for the Chartwell transaction discussed in Note 19.

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

|   | Location         | Three Months Ended<br>March 31, |        |
|---|------------------|---------------------------------|--------|
|   |                  | 2012                            | 2011   |
| Gain (loss) on interest rate swap recognized in OCI (effective portion)   | n/a              | \$ 739                          | \$ 892 |
| Gain (loss) on interest rate swaps reclassified from AOCI into income (effective portion)   | Interest expense | 461                             | 410    |
| Gain (loss) on interest rate swap recognized in income (ineffective portion and amount excluded from effectiveness testing)         | Realized loss    | n/a                             | n/a    |
| Gain (loss) on forward exchange contracts recognized in income (ineffective portion and amount excluded from effectiveness testing) | Unrealized loss  | (555)                           | -      |

**12. Commitments and Contingencies**

At March 31, 2012, we had five outstanding letter of credit obligations totaling \$5,515,000 and expiring between 2012 and 2014.

At March 31, 2012, we had outstanding construction in process of \$150,750,000 for leased properties and were committed to providing additional funds of approximately \$240,765,000 to complete construction. At March 31, 2012, we had contingent purchase obligations totaling \$50,818,000. These contingent purchase obligations relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with Accounting Standards Codification (“ASC”) Topic 840 “Leases.” A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At March 31, 2012, we had operating lease obligations of \$396,101,000 relating to certain ground leases and company office space and capital lease obligations of \$88,470,000 relating to certain investment properties. We incurred rental expense relating to company office space of \$290,000 for the three months ended March 31, 2012 as compared to \$515,000 for the same period in 2011. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At March 31, 2012, aggregate future minimum rentals to be received under these noncancelable subleases totaled \$43,108,000.

## HEALTH CARE REIT, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 13. Stockholders' Equity

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

|                                 | March 31, 2012 | December 31, 2011 |
|---------------------------------|----------------|-------------------|
| Preferred Stock:                |                |                   |
| Authorized shares               | 50,000,000     | 50,000,000        |
| Issued shares                   | 37,224,854     | 25,724,854        |
| Outstanding shares              | 37,224,854     | 25,724,854        |
| Common Stock, \$1.00 par value: |                |                   |
| Authorized shares               | 400,000,000    | 400,000,000       |
| Issued shares                   | 214,078,223    | 192,604,918       |
| Outstanding shares              | 213,682,073    | 192,275,248       |

*Preferred Stock.* During the three months ended March 31, 2012, we issued 11,500,000 shares of 6.50% Series J Cumulative Redeemable Preferred Stock. These shares have a liquidation value of \$25.00 per share. Dividends are payable quarterly in arrears. Please see Note 19 regarding preferred stock activity that occurred subsequent to March 31, 2012. During the three months ended March 31, 2011, we issued 14,375,000 shares of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock. These shares have a liquidation value of \$50.00 per share. Dividends are payable quarterly in arrears. The Series I preferred stock is not redeemable by us. These preferred shares are convertible, at the holder's option, into 0.8460 shares of common stock (equal to an initial conversion price of approximately \$59.10).

*Common Stock.* The following is a summary of our common stock issuances during the three months ended March 31, 2012 and 2011 (dollars in thousands, except per share amounts):

|   | Shares Issued | Average Price | Gross Proceeds | Net Proceeds |
|---|---------------|---------------|----------------|--------------|
| March 2011 public issuance                | 28,750,000    | \$ 49.25      | \$ 1,415,938   | \$ 1,358,694 |
| 2011 Dividend reinvestment plan issuances | 574,652       | 48.42         | 27,822         | 27,822       |
| 2011 Option exercises                     | 37,922        | 42.24         | 1,602          | 1,602        |
| 2011 Totals                               | 29,362,574    |               | \$ 1,445,362   | \$ 1,388,118 |
| February 2012 public issuance             | 20,700,000    | \$ 53.50      | \$ 1,107,450   | \$ 1,062,737 |

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|   |            |       |              |              |
|---|------------|-------|--------------|--------------|
| 2012 Dividend reinvestment plan issuances | 429,058    | 54.61 | 23,429       | 23,429       |
| 2012 Option exercises                     | 43,047     | 37.42 | 1,611        | 1,611        |
| 2012 Totals                               | 21,172,105 |       | \$ 1,132,490 | \$ 1,087,777 |

*Comprehensive Income*

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

|   |    | March 31, 2012 |    | December 31, 2011 |
|---|----|----------------|----|-------------------|
| Unrecognized losses on cash flow hedges   | \$ | (8,283)        | \$ | (8,561)           |
| Unrecognized losses on equity investments |    | (612)          |    | (619)             |
| Unrecognized actuarial losses             |    | (2,747)        |    | (2,748)           |
| Totals                                    | \$ | (11,642)       | \$ | (11,928)          |

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

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

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2012                            | 2011      |
| Unrecognized gains on cash flow hedges   | \$ 278                          | \$ 482    |
| Unrecognized gains on equity investments   | 8                               | 322       |
| Total other comprehensive income (loss)  | 286                             | 804       |
| Net income attributable to controlling interests   | 58,514                          | 32,052    |
| Comprehensive income (loss) attributable to<br>controlling interests                           | 58,800                          | 32,856    |
| Net and comprehensive income (loss) attributable to<br>noncontrolling interests <sup>(1)</sup> | (1,056)                         | (242)     |
| Total comprehensive income (loss)<br>attributable to common stockholders                       | \$ 57,744                       | \$ 32,614 |

(1) Includes amounts attributable to redeemable noncontrolling interests.

**14. Stock Incentive Plans**

Our Amended and Restated 2005 Long-Term Incentive Plan authorizes up to 6,200,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. The 2005 Plan replaced the 1995 Stock Incentive Plan and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan continued to vest through 2010 and expire ten years from the date of grant. Our non-employee directors, officers and key employees are eligible to participate in the 2005 Plan. The 2005 Plan allows for the issuance of, among other things, stock options, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three years for non-employee directors to five years for officers and key employees. Options expire ten years from the date of grant. Stock-based compensation expense totaled \$11,323,000 and \$5,593,000 for the three months ended March 31, 2012 and 2011, respectively. The increase is primarily attributable to the impact of special non-cash retention and performance based stock awards for executive officers.

**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<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2012                            | 2011      |
| Numerator for basic and diluted earnings<br>per share - net income (loss) attributable<br>to common stockholders | \$ 39,307                       | \$ 23,372 |
| Denominator for basic earnings per<br>share - weighted average shares  | 199,661                         | 154,945   |
| Effect of dilutive securities:   |                                 |           |
| Employee stock options   | 223                             | 190       |
| Non-vested restricted shares   | 280                             | 215       |
| Convertible senior unsecured notes   | 1,494                           | 135       |
| Dilutive potential common shares   | 1,997                           | 540       |
| Denominator for diluted earnings per<br>share - adjusted weighted average shares                                 | 201,658                         | 155,485   |
| Basic earnings per share   | \$ 0.20                         | \$ 0.15   |
| Diluted earnings per share   | \$ 0.19                         | \$ 0.15   |

**HEALTH CARE REIT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The diluted earnings per share calculations exclude the dilutive effect of 388,000 and 0 stock options for the three months ended March 31, 2012 and 2011, respectively, because the exercise prices were more than the average market price. The Series H Cumulative Convertible and Redeemable Preferred Stock and Series I Cumulative Convertible Perpetual Preferred Stock were not included in the calculations as the effect of conversions into common stock was anti-dilutive.

**16. Disclosure about Fair Value of Financial Instruments**

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

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

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

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

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

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

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

*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.

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

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

|   | March 31, 2012     |               | December 31, 2011  |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| <b>Financial assets:</b>                                  |                    |               |                    |               |
| Mortgage loans receivable                                 | \$ 63,625          | \$ 64,288     | \$ 63,934          | \$ 64,194     |
| Other real estate loans receivable                        | 235,243            | 236,195       | 228,573            | 231,308       |
| Available-for-sale equity<br>investments                  | 988                | 988           | 980                | 980           |
| Cash and cash equivalents                                 | 469,217            | 469,217       | 163,482            | 163,482       |
| <b>Financial liabilities:</b>                             |                    |               |                    |               |
| Borrowings under unsecured line<br>of credit arrangements | \$ 5,000           | \$ 5,000      | \$ 610,000         | \$ 610,000    |
| Senior unsecured notes                                    | 4,436,103          | 4,841,110     | 4,434,107          | 4,709,736     |
| Secured debt  | 2,353,856          | 2,468,979     | 2,112,649          | 2,297,278     |
| Interest rate swap agreements                             | 2,205              | 2,205         | 2,854              | 2,854         |
| Foreign currency forward<br>contract                      | 555                | 555           | -                  | -             |

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

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

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

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

***Items Measured at Fair Value on a Recurring Basis***

The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

|  | Fair Value Measurements as of March 31, 2012 |         |            |         |
|--|--|---------|------------|---------|
|  | Total  | Level 1 | Level 2    | Level 3 |
| Available-for-sale equity investments <sup>(1)</sup> | \$ 988                                       | \$ 988  | \$ -       | \$ -    |
| Interest rate swap agreements <sup>(2)</sup>         | (2,205)                                      | -       | (2,205)    | -       |
| Foreign currency forward contract <sup>(2)</sup>     | (555)  | -       | (555)      | -       |
| Totals   | \$ (1,772)                                   | \$ 988  | \$ (2,760) | \$ -    |

(1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date.

(2) Please see Note 11 for additional information.

***Items Measured at Fair Value on a Nonrecurring Basis***

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

**HEALTH CARE REIT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**17. Segment Reporting**

We invest in seniors housing and health care real estate. We evaluate our business and make resource allocations on our three business segments: seniors housing triple-net, seniors housing operating and medical facilities. Our seniors housing triple-net properties include skilled nursing/post-acute facilities, assisted living facilities, independent living/continuing care retirement communities and combinations thereof. Under the seniors housing triple-net segment, we invest in seniors housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our seniors housing operating properties include assisted living facilities and independent living/continuing care retirement communities that are owned and operated through RIDEA (see Note 18) partnership structures. Our primary medical facility properties include medical office buildings, hospitals and life science buildings. Our medical office buildings are typically leased to multiple tenants and generally require a certain level of property management. Our hospital investments are structured similar to our seniors housing triple-net investments. Our life science investments represent investments in an unconsolidated entity (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 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011). The results of operations for all acquisitions described in Note 3 are included in our consolidated results of operations from the acquisition dates and are components of the appropriate segments. There are no intersegment sales or transfers. We evaluate performance based upon net operating income from continuing operations ("NOI") of each segment. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, transaction costs, 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. Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining net operating income.

Summary information for the reportable segments for the three months ended March 31, 2012 and 2011 is as follows (in thousands):

## HEALTH CARE REIT, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

| <u>Three Months Ended</u><br><u>March 31, 2012:</u>  | Seniors<br>Housing<br>Triple-net | Seniors<br>Housing<br>Operating | Medical<br>Facilities | Non-segment<br>/ Corporate | Total         |
|--|----------------------------------|---------------------------------|-----------------------|----------------------------|---------------|
| Rental income  | \$ 172,894                       | \$ -                            | \$ 94,464             | \$ -                       | \$ 267,358    |
| Resident fees and<br>services  | -                                | 158,174                         | -                     | -                          | 158,174       |
| Interest income  | 5,877                            | -                               | 2,264                 | -                          | 8,141         |
| Other income   | 848                              | -                               | 603                   | 235                        | 1,686         |
| Total revenues   | 179,619                          | 158,174                         | 97,331                | 235                        | 435,359       |
| Property operating<br>expenses   | -                                | (107,243)                       | (22,025)              | -                          | (129,268)     |
| Net operating income<br>from continuing<br>operations  | 179,619                          | 50,931                          | 75,306                | 235                        | 306,091       |
| Reconciling items:   |                                  |                                 |                       |                            |               |
| Interest expense   | (2,522)                          | (15,835)                        | (10,239)              | (64,116)                   | (92,712)      |
| Unrealized loss on<br>derivatives  | -                                | (555)                           | -                     | -                          | (555)         |
| Depreciation and<br>amortization   | (52,226)                         | (39,773)                        | (33,956)              | -                          | (125,955)     |
| General and<br>administrative  | -                                | -                               | -                     | (27,751)                   | (27,751)      |
| Transaction costs  | (1,523)                          | (1,578)                         | (2,478)               | -                          | (5,579)       |
| Income (loss) from<br>continuing operations<br>before income taxes and<br>income from<br>unconsolidated entities | \$ 123,348                       | \$ (6,810)                      | \$ 28,633             | \$ (91,632)                | \$ 53,539     |
| Total assets   | \$ 7,916,935                     | \$ 3,211,595                    | \$ 4,162,288          | \$ 568,916                 | \$ 15,859,734 |

| <u>Three Months Ended</u><br><u>March 31, 2011:</u> | Seniors<br>Housing<br>Triple-net | Seniors<br>Housing<br>Operating | Medical<br>Facilities | Non-segment<br>/ Corporate | Total      |
|---|----------------------------------|---------------------------------|-----------------------|----------------------------|------------|
| Rental income                                       | \$ 95,784                        | \$ -                            | \$ 64,153             | \$ -                       | \$ 159,937 |
| Resident fees and<br>services                       | -                                | 71,286                          | -                     | -                          | 71,286     |
| Interest income                                     | 9,379                            | -                               | 2,330                 | -                          | 11,709     |
| Other income  | 507                              | -                               | 1,786                 | 531                        | 2,824      |

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|  |           |             |           |             |          |
|--|-----------|-------------|-----------|-------------|----------|
| Total revenues   | 105,670   | 71,286      | 68,269    | 531         | 245,756  |
| Property operating expenses  | -         | (49,272)    | (14,291)  | -           | (63,563) |
| Net operating income from continuing operations  | 105,670   | 22,014      | 53,978    | 531         | 182,193  |
| Reconciling items:   |           |             |           |             |          |
| Interest expense   | (148)     | (6,527)     | (6,782)   | (43,445)    | (56,902) |
| Depreciation and amortization  | (27,674)  | (20,131)    | (22,938)  | -           | (70,743) |
| General and administrative   | -         | -           | -         | (17,714)    | (17,714) |
| Transaction costs  | (3,996)   | (32,069)    | -         | -           | (36,065) |
| Provision for loan losses  | (248)     | -           | -         | -           | (248)    |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | \$ 73,604 | \$ (36,713) | \$ 24,258 | \$ (60,628) | \$ 521   |

**HEALTH CARE REIT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**18. Income Taxes and Distributions**

To qualify as a real estate investment trust for federal income tax purposes, at least 90% of taxable income (excluding 100% of net capital gains) must be distributed to stockholders. Real estate investment trusts that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The main differences between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes, basis differences in acquisitions, differing useful lives and depreciation and amortization methods for real property and the provision for loan losses for reporting purposes versus bad debt expense for tax purposes. At March 31, 2012, we continued to qualify as a real estate investment trust, and no federal provision has been reflected due to distributions made to stockholders of at least 100% of taxable income for the three months ended March 31, 2012.

At March 31, 2012, we had no U.S. federal tax losses from our taxable REIT subsidiaries (“TRS”), and no apportioned state tax losses available for carry-forward. Income tax expense reflected in the financial statements primarily represents federal, state and local income taxes as well as amounts related to uncertain tax positions as discussed below. As a result of certain acquisitions, we are subject to corporate level taxes for related asset dispositions for the period March 31, 2012 through March 31, 2021 (“built-in gains tax”). The amount of income potentially subject to this special corporate level tax is generally equal to (a) the excess of the fair value of the asset as of March 31, 2021 over its adjusted tax basis as of March 31, 2021, or (b) the actual amount of gain, whichever of (a) and (b) is lower. Some but not all gains recognized during this period of time could be offset by available net operating losses and capital loss carry-forwards. We have not recorded a deferred tax liability as a result of the potential built-in gains tax based on our intentions with respect to such properties and available tax planning strategies.

Under the provisions of the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”), for taxable years beginning after July 30, 2008, the REIT may lease “qualified health care properties” on an arm’s-length basis to a TRS if the property is operated on behalf of such subsidiary by a person who qualifies as an “eligible independent contractor.” Generally, the rent received from the TRS will meet the related party rent exception and will be treated as “rents from real property.” A “qualified health care property” includes real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients.

Through March 31, 2012, we have entered into five joint ventures that were structured under RIDEA. No new joint ventures were entered into during the three months ended March 31, 2012 that were structured under RIDEA. Resident level rents and related operating expenses for these facilities are reported in the consolidated financial

statements and are subject to federal taxes as the operations of such facilities are included in a TRS.

We apply the rules under ASC 740-10 “Accounting for Uncertainty in Income Taxes” for uncertain tax positions using a “more likely than not” recognition threshold for tax positions. Pursuant to these rules, we will initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits of the tax position, that such a position will be sustained upon examination by the relevant tax authorities. If the tax benefit meets the “more likely than not” threshold, the measurement of the tax benefit will be based on our estimate of the ultimate tax benefit to be sustained if audited by the taxing authority.

The entire balance of unrecognized tax benefits as of March 31, 2012 of \$6,098,000 (exclusive of accrued interest and penalties) relates to the April 1, 2011 Genesis transaction and is included in accrued expenses and other liabilities on the consolidated balance sheet. As a part of the Genesis acquisition, we received full indemnification from FC-GEN Operations Investment, LLC covering income taxes or other taxes as well as interest and penalties relating to tax positions taken by FC-GEN Operations Investment, LLC prior to the acquisition. As of March 31, 2012, we had \$8,090,000 reserved for uncertain tax positions pursuant to ASC 740-10 inclusive of interest and penalties, and had recorded an offsetting indemnification asset for the same amount in receivables and other assets on the consolidated balance sheets. Such indemnification asset is reviewed for collectability periodically. We have estimated that an additional \$5,087,000 to \$28,193,000 could be subject to collection under the indemnification agreement provided an unfavorable assessment is made relating to income tax positions that we currently believe are more likely than not to be sustained.

There were \$206,000 of uncertain tax positions as of March 31, 2012 for which it is reasonably possible that the amount of unrecognized tax benefits would decrease during 2012. Interest and penalties totaled \$215,000 in expense for the three months ended March 31, 2012 and were recorded as income tax expense in the consolidated statements of comprehensive income with an offsetting amount recorded in other income relating to the increase in the indemnification asset. As of March 31, 2012, \$1,862,000 of interest and penalties were accrued related to income taxes.

**HEALTH CARE REIT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**19. Subsequent Events**

*Preferred Stock Redemptions.* On April 2, 2012, we completed redemptions of all \$100 million (4 million shares) of our 7.875% Series D and \$175 million (7 million shares) of our 7.625% Series F cumulative redeemable preferred stock.

*Debt Activity.* On April 3, 2012, we completed the issuance of \$600 million of 4.125% senior unsecured notes due 2019, generating approximately \$594 million in proceeds. As of April 25, 2012, we received notices of conversion from holders of \$125 million of our 4.75% convertible senior unsecured notes. Conversion into common shares will occur prior to June 30, 2012. The remaining \$162 thousand of these notes were redeemed on April 26, 2012. Additionally, during the month ended April 30, 2012, we completed extinguishments of approximately \$185 million of secured debt bearing a weighted-average interest rate of 4.25%.

*Chartwell Transaction.* On May 1, 2012, we completed a transaction partnering with Chartwell Seniors Housing Real Estate Investment Trust to own and operate a portfolio of 42 seniors housing and care communities located in Canada. This transaction has been structured under RIDEA with 39 facilities owned 50% by us and 50% by Chartwell, and three facilities wholly owned by us. Our investment of approximately \$509.5 million was funded through a combination of cash and the pro rata assumption of secured debt. Chartwell will provide management services to the communities under an incentive-based management contract.

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

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, 2011, including factors identified under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Executive Summary****Company Overview**

Health Care REIT, Inc. is a real estate investment trust ("REIT") that has been at the forefront of seniors housing and health care real estate since the company was founded in 1970. We are an S&P 500 company headquartered in Toledo, Ohio and our portfolio spans the full spectrum of seniors housing and health care real estate, including seniors housing communities, skilled nursing/post-acute facilities, medical office buildings, inpatient and outpatient medical centers and life science facilities. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets. The following table summarizes our portfolio as of March 31, 2012:

| Type of Property                           | Investments<br>(in thousands) | Percentage<br>of<br>Investments | Number<br>of<br>Properties | #<br>Beds/Units<br>or Sq. Ft. |            | Investment<br>per<br>metric <sup>(1)</sup> |                | States |
|--|-------------------------------|---------------------------------|----------------------------|-------------------------------|------------|--|----------------|--------|
| Seniors housing<br>triple-net              | \$ 4,142,467                  | 27.7%                           | 286                        | 25,896                        | units      | \$ 163,233                                 | per<br>unit    | 39     |
| Skilled<br>nursing/post-acute              | 3,515,157                     | 23.5%                           | 307                        | 39,803                        | beds       | 89,444                                     | per<br>bed     | 28     |
| Seniors housing<br>operating               | 2,962,709                     | 19.8%                           | 118                        | 13,193                        | units      | 224,567                                    | per<br>unit    | 22     |
| Hospitals                                  | 921,629                       | 6.2%                            | 37                         | 2,209                         | beds       | 417,215                                    | per<br>bed     | 17     |
| Medical office<br>buildings <sup>(2)</sup> | 3,064,541                     | 20.5% <sup>(2)</sup>            | 201                        | 12,100,555                    | sq.<br>ft. | 262  | per<br>sq. ft. | 29     |
| Life science<br>buildings <sup>(2)</sup>   | 336,239                       | 2.3%                            | 7                          |                               |            | n/a  |                | 1      |
| Totals                                     | \$ 14,942,742                 | 100.0%                          | 956                        |                               |            |  |                | 46     |

(1) Investment per metric was computed by using the total committed investment amount of \$15,183,507,000, which includes net real estate investments, our share of investments in unconsolidated entities and unfunded construction

commitments for which initial funding has commenced which amounted to \$14,561,057,000, \$381,685,000 and \$240,765,000, respectively.

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

### *Health Care Industry*

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

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

The total U.S. population is projected to increase by 20.4% through 2030. The elderly population aged 65 and over is projected to increase by 79.2% through 2030. The elderly are an important component of health care utilization, especially independent living services, assisted living services, skilled nursing services, inpatient and outpatient hospital services and physician ambulatory care. Most health care services are provided within a health care facility such as a hospital, a physician’s office or a seniors 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:

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

Source: U.S. Census Bureau

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

- The specialized nature of the industry, which enhances the credibility and experience of our company;
- The projected population growth combined with stable or increasing health care utilization rates, which ensures demand; and
- The on-going merger and acquisition activity.

***Health Reform Laws***

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act of 2010 (the "PPACA") and the Health Care and Education Reconciliation Act of 2010, which amends the PPACA (collectively, the "Health Reform Laws"). The Health Reform Laws contain various provisions that may directly impact us or the operators and tenants of our properties. Some provisions of the Health Reform Laws may have a positive impact on our operators' or tenants' revenues, by, for example, increasing coverage of uninsured individuals, while others may have a negative impact on the reimbursement of our operators or tenants by, for example, altering the market basket adjustments for certain types of health care facilities. The Health Reform Laws also enhance certain fraud and abuse penalty provisions that could apply to our operators and tenants, in the event of one or more violations of the federal health care regulatory laws. In addition, there are provisions that impact the health coverage that we and our operators

and tenants provide to our respective employees. We cannot predict whether the existing Health Reform Laws, or future health care reform legislation or regulatory changes, will have a material impact on our operators' or tenants' property or business. If the operations, cash flows or financial condition of our operators and tenants are materially adversely impacted by the Health Reform Laws or future legislation, our revenue and operations may be adversely affected as well. On February 2, 2011, the U.S. Senate refused to pass an overhaul repeal of the Health Reform Laws, and the focus has now shifted to attempts to repeal or amend individual sections of the Health Reform Laws. Further, federal courts are also considering, and in some cases have ruled on, the legality of the Health Reform Laws. The United States Supreme Court has agreed to review the constitutionality of the Health Reform Laws and heard arguments on March 26, 2012 through March 28, 2012. We cannot predict whether any of these attempts to repeal or amend the Health Reform Laws will be successful, nor can we predict the impact that such a repeal or amendment would have on our operators and tenants.

*Impact to Reimbursement of the Operators and Tenants of Our Properties.* The Health Reform Laws provide for various changes to the reimbursement that our operators and tenants may receive. One such change is a reduction to the market basket adjustments for inpatient acute hospitals, long-term care hospitals, inpatient rehabilitation facilities, home health agencies, psychiatric hospitals, hospice care and outpatient hospitals. Since 2010, the otherwise applicable percentage increase to the market basket for inpatient acute hospitals has decreased. Beginning in 2012, inpatient acute hospitals will also face a downward adjustment of the annual percentage increase to the market basket rate by a "productivity adjustment." The productivity adjustment may cause the annual percentage increase to be less than zero, which would mean that inpatient acute hospitals could face payment rates for a fiscal year that are less than the payment rates for the preceding year.

A similar productivity adjustment also applies to skilled nursing facilities beginning in 2012, which means that the payment rates for skilled nursing facilities may decrease from one year to the next. Long-term care hospitals have faced a specified percentage

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

decrease in their annual update for discharges since 2010. Additionally, beginning in 2012, long-term care hospitals will be subject to the productivity adjustments, which may decrease the federal payment rates for long-term care hospitals. Similar productivity adjustments and other adjustments to payment rates have applied to inpatient rehabilitation facilities, psychiatric hospitals and outpatient hospitals since 2010.

The Health Reform Laws revise other reimbursement provisions that may affect our business. For example, the Health Reform Laws reduce states' Medicaid disproportionate share hospital ("DSH") allotments, starting in 2014 through 2020. These allotments would have provided additional funding for DSH hospitals that are operators or tenants of our properties, and thus, any reduction might negatively impact these operators or tenants.

Additionally, under the Health Reform Laws, beginning in fiscal year 2015, Medicare payments will decrease to hospitals for treatment associated with hospital acquired conditions. This decreased payment rate may negatively impact our operators or tenants. To account for excess readmissions, the Health Reform Laws also call for a reduction of 1% in payments for those hospitals with higher-than-average risk-adjusted readmission rates beginning October 1, 2012, 2% beginning in fiscal year 2014, and 3% from fiscal year 2015 onward. These reductions in payments to our operators or tenants may affect their ability to make payments to us.

The Health Reform Laws additionally call for the creation of the Independent Payment Advisory Board (the "Board"), which will be responsible for establishing payment polices, including recommendations in the event that Medicare costs exceed a certain threshold. Proposals for recommendations submitted by the Board prior to December 31, 2018 may not include recommendations that would reduce payments for hospitals, skilled nursing facilities, and physicians, among other providers, prior to December 31, 2019. On March 22, 2012, the House of Representatives approved legislation that would repeal the Independent Payment Advisory Board. While that legislation is virtually certain to be rejected or ignored in the Senate, the IPAB continues to be a target for repeal. The ultimate success of the repeal effort is likely to depend on the outcome of the November elections.

The Health Reform Laws also create other mechanisms that could permit significant changes to payment. For example, the Health Reform Laws establish the Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models to reduce program expenditures through the use of demonstration programs that can waive existing reimbursement methodologies. As another example, on November 2, 2011, CMS published the final rule implementing section 3022 of the Health Reform Laws, which contains provisions relating to Medicare payment to providers and suppliers participating in Accountable Care Organizations ("ACOs") under the Medicare Shared Servings Program. Under the program, Medicare will share a percentage of savings with ACOs that meet certain quality and saving requirements, thereby allowing providers to receive incentive payments in addition to their traditional fee-for-service payments. Under the program, more experienced providers may assume the risk of losses in exchange for greater potential rewards: ACOs may share up to 50% of the savings under the one-sided model and up to 60% of the savings under the two-sided model, depending on their quality and performance. The amount of shared losses for which an ACO is liable in the two-sided model may not exceed the following percentages of its

updated benchmark: 5% in the first performance year, 7.5% in the second year, and 10% in the third year. These shared losses could affect the ability of ACO operators or tenants to meet their financial obligations to us. The Health Reform Laws also provide additional Medicaid funding to allow states to carry out mandated expansion of Medicaid coverage to certain financially-eligible individuals beginning in 2014, and also permit states to expand their Medicaid coverage to these individuals as early as April 1, 2010, if certain conditions are met. The Health Reform Laws also extend certain payment rules related to long-term acute care hospitals found in the Medicare, Medicaid, and SCHIP Extension Act of 2007.

Additionally, although the Health Reform Laws delayed implementation of the Resource Utilization Group, Version Four (“RUG-IV”), which revises the payment classification system for skilled nursing facilities, the Medicare and Medicaid Extenders Act of 2010 repealed this delay retroactively to October 1, 2010. The Health Reform Laws also extend certain payment rules related to long-term acute care hospitals found in the Medicare, Medicaid, and SCHIP Extension Act of 2007.

Finally, many other changes resulting from the Health Reform Laws, or implementing regulations, or guidance may negatively impact our operators and tenants. We will continue to monitor and evaluate the Health Reform Laws and implementing regulations and guidance to determine other potential effects of the reform.

*Impact of Fraud and Abuse Provisions.* The Health Reform Laws revise health care fraud and abuse provisions that will affect our operators and tenants. Specifically, the Health Reform Laws allow for up to treble damages under the Federal False Claims Act for violations related to state-based health insurance exchanges authorized by the Health Reform Laws, which will be implemented beginning in 2014. The Health Reform Laws also impose new civil monetary penalties for false statements or actions that lead to delayed inspections, with penalties of up to \$15,000 per day for failure to grant timely access and up to \$50,000 for a knowing violation. Additionally, the Health Reform Laws require certain entities – including providers, suppliers, Medicaid managed care organizations, Medicare Advantage organizations, and prescription drug program sponsors – to report and return overpayments to the appropriate payer by the later of (a) sixty (60) days after the date the overpayment was “identified,” or (b) the date that the

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“corresponding cost report” is due. The entity also must notify the payer in writing of the reason for the overpayment. A violation of these requirements may result in criminal liability, civil liability under the FCA, and/or exclusion from the federal health care programs. On February 14, 2012, CMS published a proposed rule implementing the Health Reform Laws requirement that health care providers and suppliers report and return self-identified overpayments by the later of 60 days after the date the overpayment was identified, or the date any corresponding cost report is due, if applicable. The Health Reform Laws also amend the Federal Anti-Kickback Statute to state that any items or services “resulting from” a violation of the Anti-Kickback Statute constitutes a “false or fraudulent claim” under the Federal False Claims Act. The Health Reform Laws also provide for additional funding to investigate and prosecute health care fraud and abuse. Accordingly, the increased penalties under the Health Reform Laws for fraud and abuse violations may have a negative impact on our operators and tenants in the event that the government brings an enforcement action or subjects them to penalties.

Further, as recently as February 2, 2011, CMS published final rulemaking to implement the enhanced provider and supplier screening provisions called for in the Health Reform Laws. Under the final rule, beginning March 25, 2011, all enrolling and participating providers and suppliers are assessed an annual administrative fee and are placed in one of three risk levels (limited, moderate, and high) based on an assessment of the individual's or entity's overall risk of fraud, waste and abuse. This rule also allows for the temporary suspension of Medicare payments to providers or suppliers in the event CMS receives credible information that an overpayment, fraud, or willful misrepresentation has occurred. The Health Reform Laws granted the Secretary of the Department of Health and Human Services significant discretionary authority to suspend, exclude, or impose fines on providers and suppliers based on the agency's determination that such a provider or supplier is “high-risk,” and, as a result, this final rulemaking has the potential to materially adversely affect our operators and tenants who may be evaluated under the enhanced screening process.

However, in light of the implementation of those Health Reform Laws provisions relating to Medicare payment to providers and suppliers participating in ACOs under the Medicare Shared Savings Program, on November 2, 2011, CMS and OIG jointly published the final rule establishing waivers of certain fraud and abuse laws to ACOs. These waivers include automatic AKS, Stark, and CMP waivers that may be applied in certain situations and that will apply uniformly to each ACO, ACO participant, and ACO provider/supplier. Notably, the final rule states that CMS and OIG intend to closely monitor ACOs through June 2013 to ensure that these waivers are not causing “undesirable effects” and need to be narrowed to prevent fraud and abuse.

Additionally, provisions of Title VI of the Health Care Reform Laws are designed to increase transparency and program integrity by skilled nursing facilities, other nursing facilities and similar providers. Specifically, skilled nursing facilities and other providers and suppliers will be required to institute compliance and ethics programs. Additionally, the Health Reform Laws make it easier for consumers to file complaints against nursing homes by mandating that states establish complaint websites. The provisions calling for enhanced transparency will increase the administrative burden and costs on these providers.

*Impact to the Health Care Plans Offered to Our Employees.* The Health Reform Laws affect employers that provide health plans to their employees. The new laws change the tax treatment of the Medicare Part D retiree drug subsidy and extend dependent coverage for dependents up to age 26, among other changes. We are evaluating our health care plans in light of these changes. These changes may affect our operators and tenants as well.

### ***Medicare Program Reimbursement Changes***

In recent months, CMS released a number of proposed and final rulemakings that may potentially increase or decrease government reimbursement to our operators and tenants. To the extent that any of these rulemakings decrease government reimbursement to our operators and tenants, our revenue and operations may be indirectly, adversely affected.

On August 1, 2011, CMS issued a final rule updating the long-term acute care hospital prospective payment system for fiscal year 2012. Among other things, the final rule increased payment rates for acute care hospitals by 1% and long-term care hospitals by 1.8%. In the rule, CMS included a negative 2%, rather than the proposed negative 3.15%, documentation and coding adjustment for long-term care hospitals. CMS also released a final rulemaking for the prospective payment system and consolidated billing for skilled nursing facilities for fiscal year 2012 on August 8, 2011, which included the 11.1%, or \$3.87 billion, decrease in RUG payments made to skilled nursing facilities previously discussed. CMS announced that the reasons for this rate reduction were to correct for the unintended spike in payment levels, particularly those associated with higher paying RUGs, and to align reimbursement with cost. As part of these changes, effective October, 1, 2011, all rate categories will be updated for the full market basket; increase of 2.7%, less a 1% productivity adjustment required by Section 3401(b) of the Health Reform Laws. On April 25, 2012, CMS published a proposed rule which sets forth acute care and long-term care hospital payment rate changes for the 2013 fiscal year. Specifically, CMS proposes to increase the Medicare rates for inpatient stays at acute care hospitals by 2.3% for those hospitals that successfully participate in the Hospital Inpatient Quality Reporting Program, while those that do not successfully participate in that program would receive a 2.0% reduction. CMS also proposes to increase Medicare payment rates to long-term care hospitals by

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1.9%.

CMS annually adjusts the Medicare Physician Fee Schedule payment rates based on an update formula that includes application of the Sustainable Growth Rate ("SGR"). On November 1, 2011, CMS published the calendar year 2012 Physician Fee Schedule final rule with comment period. Most notably, the final rule calls for a negative 27.4% update for 2012 under the statutory SGR formula. In February 2012, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012, which blocks the cut through the end of 2012. Also discussed in the final rule are at least two initiatives that could negatively impact the reimbursement levels received by our operators and tenants. CMS is expanding its multiple procedure payment reduction policy to the professional interpretation of advance imaging services to recognize the overlapping activities that go into valuing these services. In addition, the rule finalizes quality and cost measures that will be used in establishing a new value-based modifier that would adjust physician payments based on whether they are providing higher quality and more efficient care. The Health Reform Laws require CMS to begin making payment adjustments to certain physicians and physician groups on January 1, 2015, and to apply the modifier to all physicians by January 1, 2017. The rule finalizes calendar year 2013 as the initial performance year for purposes of adjusting payments in calendar year 2015.

Additionally, on November 1, 2011, CMS published a final rule with comment period for outpatient care hospitals and ambulatory surgical centers. CMS estimates that the cumulative effect of all changes to payment rates for calendar year 2012 will have a positive effect, resulting in a 1.9% estimated increase in Medicare payments to providers paid under the HOPPS. As required by the Health Reform Laws, the rule also provides for a payment adjustment for designated cancer hospitals, resulting in an expected increase in payments to cancer hospitals by 11.3%, and increases payment rates to ambulatory surgical centers by 1.6%.

Finally, on November 21, 2011, the Joint Select Committee on Deficit Reduction, which was created by the Budget Control Act of 2011, concluded its work and issued a statement that it was not able to make a bipartisan agreement, thus triggering the sequestration process. The sequestration process will result in spending reductions starting in 2013, including Medicare cuts. Such cuts could affect government reimbursement to our operators and tenants.

***Capital Market Outlook***

Significant debt and equity investment capital was available to our sector in 2011 resulting in a record year of acquisition activity. We participated in this growth and continue to actively invest and pursue investment opportunities that meet our strategic underwriting criteria. Our strategy has resulted in robust portfolio growth and strong returns for our shareholders. With further industry consolidation occurring in 2012, we expect to continue our success. We believe the opportunities in which we invest will continue to generate consistent, reliable and growing cash flows for our stockholders, regardless of economic volatility.

***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 fees/services, rent and interest income and portfolio growth. To meet these objectives, we invest across the full spectrum of seniors 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, resident fees and services, 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 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 three months ended March 31, 2012, rental income, resident fees and services and interest income represented 61%, 36% and 2%, 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

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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 arrangements, internally generated cash and the proceeds from sales of real property. Our investments generate internal cash from fees/services, rent and interest receipts and principal payments on loans receivable. Permanent capital for future investments, which replaces funds drawn under the unsecured line of credit arrangements, has historically been provided through a combination of public and private offerings of debt and equity securities and the incurrence or assumption of secured debt.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under the unsecured line of credit arrangements, 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 capital expenditures and construction advances), loan advances, property operating expenses and general and administrative expenses.

Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. We anticipate the sale of real property and the repayment of loans receivable totaling approximately \$300,000,000 during 2012. 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 arrangements. At March 31, 2012, we had \$469,217,000 of cash and cash equivalents, \$83,499,000 of restricted cash and \$2,000,000,000 of available borrowing capacity under our unsecured line of credit arrangements.

***Key Transactions in 2012***

We have completed the following key transactions to date in 2012:

- our Board of Directors increased the quarterly cash dividend to \$0.74 per common share for 2012, as compared to the previous \$0.715 per common share rate, beginning with the February 2012 dividend payment;
- we completed the following capital transactions:
  - issued 20,700,000 shares of common stock, generating approximately \$1,062,737,000 of proceeds in February;

- issued 11,500,000 shares of 6.5% Series J Cumulative Redeemable Preferred Stock, generating approximately \$277,901,000 of proceeds in March;
- redeemed \$100,000,000 of 7.875% Series D and \$175,000,000 of 7.625% Series F Cumulative Redeemable Preferred Stock in April;
- issued \$600,000,000 of 4.125% senior unsecured notes, generating approximately \$594,064,000 of proceeds in April;
- completed the redemption of \$125,563,000 of 4.75% convertible senior unsecured notes in April;
- extinguished approximately \$185,000,000 of secured debt bearing a weighted-average interest rate of 4.25% in April;
- we completed \$753,363,000 of gross investments and had \$31,815,000 of investment payoffs during the three months ended March 31, 2012;
- we completed our Canadian investment with Chartwell Seniors Housing REIT on May 1, 2012; and
- we declassified our Board of Directors in May.

### ***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 from continuing operations (“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

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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,<br>2011  | June 30,<br>2011 | September 30,<br>2011 | December 31,<br>2011 | March 31,<br>2012 |
| Net income (loss) attributable to common stockholders | \$ 23,372          | \$ 69,847        | \$ 36,607             | \$ 27,282            | \$ 39,307         |
| Funds from operations                                 | 71,053             | 149,691          | 150,376               | 154,398              | 163,857           |
| Net operating income from continuing operations       | 182,193            | 274,010          | 273,991               | 288,926              | 306,091           |
| Per share data (fully diluted):                       |                    |                  |                       |                      |                   |
| Net income (loss) attributable to common stockholders | \$ 0.15            | \$ 0.39          | \$ 0.21               | \$ 0.15              | \$ 0.19           |
| Funds from operations                                 | 0.46               | 0.84             | 0.85                  | 0.83                 | 0.81              |

*Concentration Risk.* We evaluate our concentration risk in terms of asset mix, investment mix, relationship 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. Investment mix measures the portion of our investments that relate to our various property types. Relationship mix measures the portion of our investments that relate to our top five relationships. 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 (including unconsolidated entities) for the periods presented:

|  | March 31,<br>2011 | June 30,<br>2011 | September<br>30,<br>2011 | December<br>31,<br>2011 | March 31,<br>2012 |
|--|-------------------|------------------|--------------------------|-------------------------|-------------------|
| Asset mix:                             |                   |                  |                          |                         |                   |
| Real property                          | 92%               | 94%              | 95%                      | 95%                     | 95%               |
| Real estate loans receivable           | 4%                | 3%               | 2%                       | 2%                      | 2%                |
| Investments in unconsolidated entities | 4%                | 3%               | 3%                       | 3%                      | 3%                |
| Investment mix:                        |                   |                  |                          |                         |                   |
| Seniors housing triple-net             | 45%               | 56%              | 57%                      | 53%                     | 51%               |

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|                           |     |     |     |     |     |
|---------------------------|-----|-----|-----|-----|-----|
| Seniors housing operating | 22% | 17% | 16% | 20% | 20% |
| Medical facilities        | 33% | 27% | 27% | 27% | 29% |

Relationship mix:

|                                |     |     |     |     |     |
|--------------------------------|-----|-----|-----|-----|-----|
| Genesis HealthCare, LLC        |     | 19% | 19% | 17% | 16% |
| Merrill Gardens, LLC           | 7%  | 6%  | 5%  | 8%  | 8%  |
| Benchmark Senior Living        | 9%  | 7%  | 7%  | 6%  | 6%  |
| Brandywine Senior Living, LLC  | 6%  | 5%  | 5%  | 5%  | 5%  |
| Senior Living Communities, LLC | 6%  | 5%  | 5%  | 4%  | 4%  |
| Senior Star Living             | 5%  |     |     |     |     |
| Remaining relationships        | 67% | 58% | 59% | 60% | 61% |

Geographic mix:

|                  |     |     |     |     |     |
|------------------|-----|-----|-----|-----|-----|
| California       | 10% | 8%  | 8%  | 10% | 10% |
| New Jersey       |     | 8%  | 9%  | 10% | 9%  |
| Texas            | 8%  | 7%  | 7%  | 7%  | 9%  |
| Massachusetts    | 10% | 9%  | 9%  | 8%  | 8%  |
| Florida          | 9%  | 7%  | 8%  | 7%  | 7%  |
| Washington       | 6%  |     |     |     |     |
| Remaining states | 57% | 61% | 59% | 58% | 57% |

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

|  | Three Months Ended |                  |                          |                         |                   |
|--|--------------------|------------------|--------------------------|-------------------------|-------------------|
|  | March 31,<br>2011  | June 30,<br>2011 | September<br>30,<br>2011 | December<br>31,<br>2011 | March 31,<br>2012 |
| Debt to book capitalization ratio                  | 48%                | 49%              | 50%                      | 50%                     | 45%               |
| Debt to undepreciated book<br>capitalization ratio | 45%                | 45%              | 47%                      | 46%                     | 41%               |
| Debt to market capitalization ratio                | 37%                | 38%              | 42%                      | 38%                     | 34%               |
| Interest coverage ratio                            | 2.75x              | 3.34x            | 2.94x                    | 2.86x                   | 3.03x             |
| Fixed charge coverage ratio                        | 2.22x              | 2.60x            | 2.29x                    | 2.23x                   | 2.33x             |

*Lease Expirations.* The following table sets forth information regarding lease expirations for certain portions of our portfolio as of March 31, 2012 (dollars in thousands):

|  | Expiration Year |           |           |          |      |           |           |          |           |           |           |
|--|-----------------|-----------|-----------|----------|------|-----------|-----------|----------|-----------|-----------|-----------|
|  | 2012            | 2013      | 2014      | 2015     | 2016 | 2017      | 2018      | 2019     | 2020      | 2021      | Thereaft  |
| <b>Seniors<br/>housing<br/>triple-net:</b> |                 |           |           |          |      |           |           |          |           |           |           |
| Properties                                 | 44              | 25        | 17        | 2        | -    | 37        | 51        | 8        | 46        | 55        | 28        |
| Base<br>rent <sup>(1)</sup>                | \$ 36,979       | \$ 53,037 | \$ 27,434 | \$ 2,026 | \$ - | \$ 16,923 | \$ 36,823 | \$ 9,463 | \$ 41,025 | \$ 61,064 | \$ 433,14 |
| %<br>of<br>base                            | 5.2%            | 7.4%      | 3.8%      | 0.3%     | 0.0% | 2.4%      | 5.1%      | 1.3%     | 5.7%      | 8.5%      | 60.3      |

rent

**Hospitals:**

|                             |      |      |      |      |      |          |      |      |          |      |       |
|-----------------------------|------|------|------|------|------|----------|------|------|----------|------|-------|
| Properties -                | -    | -    | -    | -    | -    | 3        | -    | -    | 5        | -    | 2     |
| Base<br>rent <sup>(1)</sup> | - \$ | - \$ | - \$ | - \$ | - \$ | 2,350 \$ | - \$ | - \$ | 6,036 \$ | - \$ | 74,27 |
| %<br>of<br>base<br>rent     | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 2.8%     | 0.0% | 0.0% | 7.3%     | 0.0% | 89.9  |

**Medical  
office  
buildings:**

|                             |           |           |           |           |           |           |           |           |           |           |          |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| Square<br>feet              | 520,344   | 571,804   | 621,895   | 589,255   | 935,723   | 858,265   | 498,381   | 559,328   | 543,439   | 718,690   | 3,925,53 |
| Base<br>rent <sup>(1)</sup> | 10,107 \$ | 13,385 \$ | 13,373 \$ | 12,565 \$ | 21,529 \$ | 20,867 \$ | 11,653 \$ | 13,657 \$ | 12,942 \$ | 18,056 \$ | 102,36   |
| %<br>of<br>base<br>rent     | 4.0%      | 5.3%      | 5.3%      | 5.0%      | 8.6%      | 8.3%      | 4.7%      | 5.5%      | 5.2%      | 7.2%      | 40.9     |

(1) The most recent monthly base rent including straight line for leases with fixed escalators or annual cash rents for leases with contingent escalators. Base rent does not include tenant recoveries or amortization of above and below market lease intangible

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in “Forward-Looking Statements and Risk Factors” and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2011, 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.

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

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

|  | Three Months Ended |                  |                          |                      |                   |
|--|--------------------|------------------|--------------------------|----------------------|-------------------|
|  | March 31,<br>2011  | June 30,<br>2011 | September<br>30,<br>2011 | December 31,<br>2011 | March 31,<br>2012 |
| Net operating income from continuing operations: |                    |                  |                          |                      |                   |
| Seniors housing triple-net                       | \$ 105,670         | \$ 175,162       | \$ 170,509               | \$ 179,399           | \$ 179,619        |
| Seniors housing operating                        | 22,014             | 38,815           | 38,907                   | 42,207               | 50,931            |
| Medical facilities                               | 53,978             | 59,655           | 64,268                   | 67,267               | 75,306            |
| Non-segment/corporate                            | 531                | 378              | 307                      | 53                   | 235               |
| Total  | \$ 182,193         | \$ 274,010       | \$ 273,991               | \$ 288,926           | \$ 306,091        |

*Payment coverage.* Payment coverage of our triple-net customers continues to remain strong. The table below reflects our recent historical trends of payment coverage. 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.

|                            | December 31, 2009 |       | Twelve months ended<br>December 31, 2010 |       | December 31, 2011 |       |
|----------------------------|-------------------|-------|--|-------|-------------------|-------|
|                            | CBMF              | CAMF  | CBMF                                     | CAMF  | CBMF              | CAMF  |
| Seniors housing            | 1.49x             | 1.28x | 1.55x                                    | 1.33x | 1.35x             | 1.16x |
| Skilled nursing/post-acute | 2.29x             | 1.68x | 2.38x                                    | 1.76x | 2.04x             | 1.57x |
| Hospitals                  | 2.39x             | 2.07x | 2.57x                                    | 2.24x | 2.45x             | 2.10x |
| Weighted averages          | 1.99x             | 1.57x | 2.07x                                    | 1.65x | 1.81x             | 1.46x |

**Corporate Governance**

Maintaining investor confidence and trust is 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](http://www.hcreit.com).

## **Liquidity and Capital Resources**

### *Sources and Uses of Cash*

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under the unsecured line of credit arrangements, 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 capital expenditures and construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below.

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

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|  | Three Months Ended |                | Change         |      |
|--|--------------------|----------------|----------------|------|
|  | March 31, 2012     | March 31, 2011 | \$             | %    |
| Cash and cash equivalents at beginning of period | \$ 163,482         | \$ 131,570     | \$ 31,912      | 24%  |
| Cash provided from operating activities          | 174,044            | 113,787        | 60,257         | 53%  |
| Cash used in investing activities                | (537,837)          | (611,380)      | 73,543         | -12% |
| Cash provided from financing activities          | 669,528            | 3,034,018      | (2,364,490)    | -78% |
| Cash and cash equivalents at end of period       | \$ 469,217         | \$ 2,667,995   | \$ (2,198,778) | -82% |

*Operating Activities.* The change in net cash provided from operating activities is primarily attributable to an increase in NOI. The following is a summary of our straight-line rent and above/below market lease amortization (dollars in thousands):

|  | Three Months Ended |                | Change   |       |
|--|--------------------|----------------|----------|-------|
|  | March 31, 2012     | March 31, 2011 | \$       | %     |
| Gross straight-line rental income                        | \$ 11,139          | \$ 5,030       | \$ 6,109 | 121%  |
| Cash receipts due to real property sales                 | -                  | (250)          | 250      | -100% |
| Prepaid rent receipts                                    | (1,014)            | (3,362)        | 2,348    | -70%  |
| Amortization related to below (above) market leases, net | 252                | 658            | (406)    | -62%  |
|  | \$ 10,377          | \$ 2,076       | \$ 8,301 | 400%  |

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 is primarily attributable to the Genesis master lease which began April 1, 2011.

*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):

| Properties | Three Months Ended |                | Properties | Amount |
|------------|--------------------|----------------|------------|--------|
|            | March 31, 2012     | March 31, 2011 |            |        |
|            | Amount             |                |            |        |

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|   |    |    |           |    |    |           |
|---|----|----|-----------|----|----|-----------|
| Assets acquired:                              |    |    |           |    |    |           |
| Seniors housing triple-net                    | 3  | \$ | 95,283    | 7  | \$ | 114,659   |
| Seniors housing operating                     | 6  |    | 211,285   | 46 |    | 1,151,778 |
| Medical office buildings                      | 13 |    | 373,767   | 1  |    | 6,981     |
| Total assets acquired                         | 22 |    | 680,335   | 54 |    | 1,273,418 |
| Less: Assumed debt                            |    |    | (172,856) |    |    | (592,711) |
| Assumed other items, net                      |    |    | (13,190)  |    |    | (98,920)  |
| Cash disbursed for acquisitions               |    |    | 494,289   |    |    | 581,787   |
| Construction in progress cash additions       |    |    | 55,852    |    |    | 90,688    |
| Capital improvements to existing properties   |    |    | 20,059    |    |    | 10,877    |
| Total cash invested in real property          |    |    | 570,200   |    |    | 683,352   |
| Real property dispositions:                   |    |    |           |    |    |           |
| Seniors housing triple-net                    |    |    | -         | 14 |    | 17,892    |
| Medical facilities                            | 4  |    | 31,815    | -  |    | -         |
| Total dispositions                            | 4  |    | 31,815    | 14 |    | 17,892    |
| Add: Gains (losses) on sales of real property |    |    | 769       |    |    | 26,156    |
| Proceeds from real property sales             |    |    | 32,584    |    |    | 44,048    |
| Net cash investments in real property         | 18 | \$ | 537,616   | 40 | \$ | 639,304   |
|   | 32 |    |           |    |    |           |

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|   | March 31, 2012                   |                       |          | Three Months Ended<br>March 31, 2011 |                       |           |
|---|----------------------------------|-----------------------|----------|--------------------------------------|-----------------------|-----------|
|   | Seniors<br>Housing<br>Triple-net | Medical<br>Facilities | Totals   | Seniors<br>Housing<br>Triple-net     | Medical<br>Facilities | Totals    |
| Advances on real estate loans<br>receivable:    |                                  |                       |          |                                      |                       |           |
| Investments in new<br>loans                     | \$ -                             | \$ -                  | \$ -     | \$ 11,807                            | \$ -                  | \$ 11,807 |
| Draws on existing<br>loans                      | 10,467                           | 194                   | 10,661   | 8,824                                | 2,481                 | 11,305    |
| Net cash advances on<br>real estate loans       | 10,467                           | 194                   | 10,661   | 20,631                               | 2,481                 | 23,112    |
| Receipts on real estate loans<br>receivable:    |                                  |                       |          |                                      |                       |           |
| Loan payoffs                                    | -                                | -                     | -        | 7,607                                | -                     | 7,607     |
| Principal payments on<br>loans                  | 3,689                            | 612                   | 4,301    | 2,653                                | 2,081                 | 4,734     |
| Total receipts on real<br>estate loans          | 3,689                            | 612                   | 4,301    | 10,260                               | 2,081                 | 12,341    |
| Net advances (receipts) on real<br>estate loans | \$ 6,778                         | \$ (418)              | \$ 6,360 | \$ 10,371                            | \$ 400                | \$ 10,771 |

Capitalization rates for acquisitions represent annualized contractual income or projected income to be received in cash divided by investment amounts. Capitalization rates for dispositions represent annualized contractual income that was being received in cash at date of disposition divided by cash proceeds. For the three months ended March 31, 2012, weighted-average capitalization rates for acquisitions and dispositions were as follows:

|                            | Acquisitions | Dispositions |
|----------------------------|--------------|--------------|
| Seniors housing triple-net | 7.3%         | n/a          |
| Seniors housing operating  | 6.8%         | n/a          |
| Medical facilities         | 6.4%         | 7.4%         |

*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 and preferred stock and dividend payments.

For the three months ended March 31, 2012, we had a net decrease of \$605,000,000 on our unsecured line of credit arrangement as compared to a net decrease of \$300,000,000 for the same period in 2011. The change in our senior unsecured notes is primarily due to the issuance of \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041 in March 2011 whereas we did not have any similar issuances in the three months ended March 31, 2012.

For the three months ended March 31, 2012, we issued two secured loans totaling \$111,000,000 with an average rate of 4.18%. During the three months ended March 31, 2012, we extinguished four secured loans totaling \$33,092,000 with an average rate of 4.30%. We did not have any similar activity in the prior year comparable period.

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

During the three months ended March 31, 2012, we issued 11,500,000 shares of 6.50% Series J Cumulative Redeemable Preferred Stock for net proceeds of \$277,901,000. These shares have a liquidation value of \$25.00 per share. Dividends are payable quarterly in arrears. During the three months ended March 31, 2011, we issued 14,375,000 shares of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock for net proceeds of \$696,741,000. These shares have a liquidation value of \$50.00 per share. Dividends are payable quarterly in arrears. The Series I preferred stock is not redeemable by us. These preferred shares are convertible, at the holder's option, into 0.8460 shares of common stock (equal to an initial conversion price of approximately \$59.10).

The following is a summary of our common stock issuances for the three months ended March 31, 2012 and 2011 (dollars in thousands, except average price amounts):

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

|   | Shares Issued | Average Price | Gross Proceeds | Net Proceeds |
|---|---------------|---------------|----------------|--------------|
| March 2011 public issuance                | 28,750,000    | \$ 49.25      | \$ 1,415,938   | \$ 1,358,694 |
| 2011 Dividend reinvestment plan issuances | 574,652       | 48.42         | 27,822         | 27,822       |
| 2011 Option exercises                     | 37,922        | 42.24         | 1,602          | 1,602        |
| 2011 Totals                               | 29,362,574    |               | \$ 1,445,362   | \$ 1,388,118 |
| February 2012 public issuance             | 20,700,000    | \$ 53.50      | \$ 1,107,450   | \$ 1,062,737 |
| 2012 Dividend reinvestment plan issuances | 429,058       | 54.61         | 23,429         | 23,429       |
| 2012 Option exercises                     | 43,047        | 37.42         | 1,611          | 1,611        |
| 2012 Totals                               | 21,172,105    |               | \$ 1,132,490   | \$ 1,087,777 |

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

|                          | Three Months Ended |            |                |            |
|--------------------------|--------------------|------------|----------------|------------|
|                          | March 31, 2012     |            | March 31, 2011 |            |
|                          | Per Share          | Amount     | Per Share      | Amount     |
| Common Stock             | \$ 0.7400          | \$ 142,919 | \$ 0.6900      | \$ 102,040 |
| Series D Preferred Stock | 0.4922             | 1,969      | 0.4922         | 1,969      |
| Series F Preferred Stock | 0.4766             | 3,336      | 0.4766         | 3,336      |
| Series H Preferred Stock | 0.3750             | 250        | 0.3750         | 131        |
| Series I Preferred Stock | 0.8125             | 11,680     | 0.2257         | 3,244      |
| Series J Preferred Stock | 0.1715             | 1,972      | -              | -          |
| Totals                   |                    | \$ 162,126 |                | \$ 110,720 |

**Off-Balance Sheet Arrangements**

During the year ended December 31, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located at University Park in Cambridge, Massachusetts, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. In connection with these transactions, we invested \$174,692,000 of cash which was recorded as an

investment in unconsolidated entities on the balance sheet. In addition, at March 31, 2012, we had other investments in unconsolidated entities with our ownership ranging from 10% to 50%. 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 and movements in foreign currency exchange rates. We may or may not elect to use financial derivative instruments to hedge these risks. These decisions are principally based on the general trends in these rates at the applicable dates, our perception of the future volatility of these rates and our relative levels of variable rate debt and foreign currency denominated investments. Please see Note 11 to our unaudited consolidated financial statements for additional information.

At March 31, 2012, we had five outstanding letter of credit obligations totaling \$5,515,000 and expiring between 2012 and 2014. Please see Note 12 to our unaudited consolidated financial statements for additional information.

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

The following table summarizes our payment requirements under contractual obligations as of March 31, 2012 (in thousands):

| Contractual Obligations               | Payments Due by Period |            |              |              |              |
|---------------------------------------|------------------------|------------|--------------|--------------|--------------|
|                                       | Total                  | 2012       | 2013-2014    | 2015-2016    | Thereafter   |
| Unsecured line of credit arrangements | \$ 5,000               | \$ 5,000   | \$ -         | \$ -         | \$ -         |
| Senior unsecured notes <sup>(1)</sup> | 4,464,905              | 202,416    | 300,000      | 950,000      | 3,012,489    |
| Secured debt <sup>(1)</sup>           | 2,525,006              | 262,791    | 423,714      | 511,084      | 1,327,417    |
| Contractual interest obligations      | 3,035,685              | 243,521    | 618,582      | 506,171      | 1,667,410    |
| Capital lease obligations             | 88,470                 | 6,045      | 73,977       | 8,448        | -            |
| Operating lease obligations           | 396,101                | 5,054      | 14,071       | 13,175       | 363,801      |
| Purchase obligations                  | 291,583                | 118,863    | 164,387      | 8,333        | -            |
| Other long-term liabilities           | 5,935                  | -          | 475          | 1,900        | 3,560        |
| Total contractual obligations         | \$ 10,812,684          | \$ 843,690 | \$ 1,595,206 | \$ 1,999,111 | \$ 6,374,677 |

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

At March 31, 2012, we had an unsecured line of credit arrangement with a consortium of 31 banks in the amount of \$2.0 billion, which is scheduled to expire on July 27, 2015. 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 (1.60% at March 31, 2012). The applicable margin is based on certain of our debt ratings and was 1.35% at March 31, 2012. 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 0.25% at March 31, 2012. Principal is due upon expiration of the agreement. In addition, at March 31, 2012, we had a \$5,000,000 unsecured revolving demand note outstanding and bearing interest at 1-month LIBOR plus 110 basis points.

We have \$4,464,905,000 of senior unsecured notes principal outstanding with fixed annual interest rates ranging from 3.00% to 8.00%, payable semi-annually. Total contractual interest obligations on senior unsecured notes totaled \$2,242,993,000 at March 31, 2012. A total of \$788,052,000 of our senior unsecured notes are convertible notes that also contain put features. During the month of April 2012, \$125,563,000 of convertible senior notes was redeemed.

We have consolidated secured debt with total outstanding principal of \$2,336,082,000, collateralized by owned properties, with fixed annual interest rates ranging from 1.2% to 8.0%, payable monthly. The carrying values of the properties securing the debt totaled \$4,388,367,000 at March 31, 2012. Total contractual interest obligations on consolidated secured debt totaled \$755,329,000 at March 31, 2012. Additionally, our share of non-recourse debt associated with unconsolidated joint ventures (as reflected in the contractual obligations table above) is \$188,924,000 at March 31, 2012. Our share of contractual interest obligations on our unconsolidated joint venture (as reflected in the contractual obligations table above) secured debt is \$37,357,000 at March 31, 2012. During the month of April 2012, approximately \$185,000,000 of consolidated secured debt was extinguished.

At March 31, 2012, we had operating lease obligations of \$396,101,000 relating primarily to ground leases at certain of our properties and office space leases and capital lease obligations of \$88,470,000 relating to certain leased investment properties that contain bargain purchase options.

Purchase obligations include unfunded construction commitments and contingent purchase obligations. At March 31, 2012, we had outstanding construction financings of \$150,750,000 for leased properties and were committed to providing additional financing of approximately \$240,765,000 to complete construction. At March 31, 2012, we had contingent purchase obligations totaling \$50,818,000. These contingent purchase obligations relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Upon funding, rents 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”). 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. Benefit payments are expected to total \$2,375,000 during the next five fiscal years and \$3,560,000 thereafter. We use a December 31 measurement date for the SERP. The accrued liability on our balance sheet for the SERP was \$5,827,000 and \$5,623,000 at March 31, 2012 and December 31, 2011, respectively.

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**Capital Structure**

As of March 31, 2012, we had total equity of \$8,554,018,000 and a total debt balance of \$6,794,959,000, which represents a debt to total book capitalization ratio of 45%. Our ratio of debt to market capitalization was 34% at March 31, 2012. For the three months ended March 31, 2012, our interest coverage ratio was 3.03x and our fixed charge coverage ratio was 2.33x. Also, at March 31, 2012, we had \$469,217,000 of cash and cash equivalents, \$83,499,000 of restricted cash and \$2,000,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of March 31, 2012, 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 4, 2012, we filed an open-ended automatic or “universal” shelf registration statement with the Securities and Exchange Commission covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depositary shares, warrants and units. As of April 30, 2012, we had an effective registration statement on file in connection with our enhanced dividend reinvestment plan under which we may issue up to 10,000,000 shares of common stock. As of April 30, 2012, 5,435,669 shares of common stock remained available for issuance under this registration statement. We have entered into separate Equity Distribution Agreements with UBS Securities LLC, RBS Securities Inc., KeyBanc Capital Markets Inc. and Credit Agricole Securities (USA) Inc. relating to the offer and sale from time to time of up to \$630,015,000 aggregate amount of our common stock (“Equity Shelf Program”). As of April 30, 2012, we had \$457,112,000 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, interest and resident fees and services. Our primary expenses include interest expense, depreciation and amortization, property operating expenses, transaction costs and general and administrative expenses. These revenues and expenses are reflected in our Consolidated Statements of Comprehensive 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

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|   | March 31,<br>2012 | March 31,<br>2011 | Amount    | %    |
|---|-------------------|-------------------|-----------|------|
| Net income (loss) attributable<br>to common<br>stockholders | \$ 39,307         | \$ 23,372         | \$ 15,935 | 68%  |
| Funds from operations                                       | 163,857           | 71,053            | 92,804    | 131% |
| EBITDA  | 280,072           | 166,037           | 114,035   | 69%  |
| Net operating income from<br>continuing operations          | 306,091           | 182,193           | 123,898   | 68%  |
| Same store cash NOI   | 163,005           | 158,148           | 4,857     | 3%   |
| Per share data (fully diluted):                             |                   |                   |           |      |
| Net income (loss) attributable<br>to common<br>stockholders | \$ 0.19           | \$ 0.15           | \$ 0.04   | 27%  |
| Funds from operations                                       | 0.81              | 0.46              | 0.35      | 76%  |
| Interest coverage ratio                                     | 3.03x             | 2.75x             | 0.28x     | 10%  |
| Fixed charge coverage ratio                                 | 2.33x             | 2.22x             | 0.11x     | 5%   |

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

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

*Seniors Housing Triple-net*

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

|   | Three Months Ended |                   | Change    |       |
|---|--------------------|-------------------|-----------|-------|
|   | March 31,<br>2012  | March 31,<br>2011 | \$        | %     |
| Revenues:   |                    |                   |           |       |
| Rental income   | \$ 172,894         | \$ 95,784         | \$ 77,110 | 81%   |
| Interest income   | 5,877              | 9,379             | (3,502)   | -37%  |
| Other income  | 848                | 507               | 341       | 67%   |
| Net operating income<br>from continuing<br>operations   | 179,619            | 105,670           | 73,949    | 70%   |
| Other expenses:   |                    |                   |           |       |
| Interest expense  | 2,522              | 148               | 2,374     | 1604% |
| Depreciation and amortization   | 52,226             | 27,674            | 24,552    | 89%   |
| Transaction costs   | 1,523              | 3,996             | (2,473)   | -62%  |
| Provision for loan losses   | -                  | 248               | (248)     | -100% |
|   | 56,271             | 32,066            | 24,205    | 75%   |
| Income from continuing<br>operations before income taxes<br>and income (loss) from<br>unconsolidated entities | 123,348            | 73,604            | 49,744    | 68%   |
| Income tax expense  | (678)              | -                 | (678)     | n/a   |
| Income (loss) from unconsolidated<br>entities   | 1                  | -                 | 1         | n/a   |
| Income from continuing<br>operations  | 122,671            | 73,604            | 49,067    | 67%   |
| Discontinued operations:  |                    |                   |           |       |
| Gain on sales<br>of properties  | -                  | 26,156            | (26,156)  | -100% |
| Impairment of assets  | -                  | (202)             | 202       | -100% |
| Income from<br>discontinued<br>operations, net  | 3,266              | 4,760             | (1,494)   | -31%  |

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|   |            |            |           |      |
|---|------------|------------|-----------|------|
| Discontinued operations, net                              | 3,266      | 30,714     | (27,448)  | -89% |
| Net income  | 125,937    | 104,318    | 21,619    | 21%  |
| Less: Net income attributable to noncontrolling interests | (116)      | -          | (116)     | n/a  |
| Net income attributable to common stockholders            | \$ 125,821 | \$ 104,318 | \$ 21,503 | 21%  |

The increase in rental income is primarily attributable to acquisitions and the conversion of newly constructed seniors housing triple-net properties subsequent to March 31, 2011 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. For the three months ended March 31, 2012, we had no lease renewals but we had 12 leases with rental rate increasers ranging from 0.17% to 0.41% in our seniors housing triple-net portfolio.

Interest expense for the three months ended March 31, 2012 and 2011 represents \$3,532,000 and \$2,066,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is

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

due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our seniors housing triple-net property secured debt principal activity (dollars in thousands):

|                    | Three Months Ended<br>March 31, 2012 |                                | Three Months Ended<br>March 31, 2011 |                                |
|--------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
|                    | Amount                               | Weighted Avg.<br>Interest Rate | Amount                               | Weighted Avg.<br>Interest Rate |
| Beginning balance  | \$ 259,000                           | 5.105%                         | \$ 172,862                           | 5.265%                         |
| Debt assumed       | -                                    | 0.000%                         | 6,612                                | 4.590%                         |
| Principal payments | (1,176)                              | 5.467%                         | (694)                                | 5.624%                         |
| Ending balance     | \$ 257,824                           | 5.146%                         | \$ 178,780                           | 5.236%                         |
| Monthly averages   | \$ 258,413                           | 5.140%                         | \$ 176,935                           | 5.247%                         |

Depreciation and amortization increased as a result of acquisitions and the conversion of newly constructed investment properties subsequent to March 31, 2011. 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 were incurred in connection with acquisitions that occurred during the relevant periods.

At March 31, 2012, we had 32 seniors housing triple-net properties that satisfied the requirements for held for sale treatment. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2011 or held for sale at March 31, 2012 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2012                            | 2011     |
| Rental income                            | \$ 5,743                        | \$ 9,959 |
| Expenses:                                |                                 |          |
| Interest expense                         | 1,010                           | 1,918    |
| Provision for depreciation               | 1,467                           | 3,281    |
| Income from discontinued operations, net | \$ 3,266                        | \$ 4,760 |

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

As discussed in Note 3 to our unaudited consolidated financial statements, we completed additional acquisitions within our seniors housing operating partnerships during the three months ended March 31, 2012. The results of operations for these partnerships have been included in our consolidated results of operations from the dates of acquisition. The seniors housing operating partnerships were formed using the structure authorized by the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"). When considering new partnerships utilizing the RIDEA structure, we look for opportunities with best-in-class operators with a strong seasoned leadership team, high-quality real estate in attractive markets, growth potential above the rent escalators in our triple-net lease seniors housing portfolio, and alignment of economic interests with our operating partner. Our seniors housing operating partnerships offer us the opportunity for external growth because we have the right to fund future seniors housing investment opportunities sourced by our operating partners. The following is a summary of our seniors housing operating results of operations (dollars in thousands):

|   | Three Months Ended |                   | Change    |      |
|---|--------------------|-------------------|-----------|------|
|   | March 31,<br>2012  | March 31,<br>2011 | \$        | %    |
| Resident fees and services  | \$ 158,174         | \$ 71,286         | \$ 86,888 | 122% |
| Property operating expenses   | 107,243            | 49,272            | 57,971    | 118% |
| Net operating income from continuing operations   | 50,931             | 22,014            | 28,917    | 131% |
| Other expenses:   |                    |                   |           |      |
| Interest expense  | 15,835             | 6,527             | 9,308     | 143% |
| Unrealized loss on derivatives  | 555                | -                 | 555       | n/a  |
| Depreciation and amortization   | 39,773             | 20,131            | 19,642    | 98%  |
| Transaction costs   | 1,578              | 32,069            | (30,491)  | -95% |
|   | 57,741             | 58,727            | (986)     | -2%  |
| Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities | (6,810)            | (36,713)          | 29,903    | -81% |
| Income tax expense  | (659)              | -                 | (659)     | n/a  |
| Income (loss) from unconsolidated entities  | (330)              | (565)             | 235       | n/a  |
| Net income (loss)   | (7,799)            | (37,278)          | 29,479    | -79% |
| Less: Net income (loss) attributable to noncontrolling interests  | (1,305)            | (1,407)           | 102       | -7%  |
| Net income (loss) attributable to common stockholders   | \$ (6,494)         | \$ (35,871)       | \$ 29,377 | -82% |

Revenues, property operating expenses and depreciation and amortization increased as a result of acquisitions subsequent to March 31, 2011. To the extent that we acquire or dispose of additional properties in the future, these amounts will change accordingly.

Interest expense represents secured debt interest expense. The following is a summary of our seniors housing operating property secured debt principal activity (dollars in thousands):

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

|                    | Three Months Ended<br>March 31, 2012 |                                | Three Months Ended<br>March 31, 2011 |                                   |
|--------------------|--------------------------------------|--------------------------------|--------------------------------------|-----------------------------------|
|                    | Amount                               | Weighted Avg.<br>Interest Rate | Amount                               | Weighted<br>Avg.<br>Interest Rate |
| Beginning balance  | \$ 1,318,599                         | 5.139%                         | \$ 487,705                           | 5.323%                            |
| Debt issued        | 111,000                              | 4.180%                         | -                                    | 0.000%                            |
| Debt assumed       | -                                    | 0.000%                         | 557,217                              | 5.420%                            |
| Debt extinguished  | (15,709)                             | 2.752%                         | -                                    | 6.057%                            |
| Principal payments | (3,715)                              | 5.018%                         | (2,022)                              | 5.373%                            |
| Ending balance     | \$ 1,410,175                         | 5.090%                         | \$ 1,042,900                         | 5.373%                            |
| Monthly averages   | \$ 1,427,302                         | 5.064%                         | \$ 1,041,245                         | 5.372%                            |

On February 15, 2012, we entered into a forward exchange contract to purchase \$250,000,000 Canadian Dollars at a fixed rate in the future. The forward contract was used to limit exposure to fluctuations in the Canadian Dollar to U.S. Dollar exchange rate associated with our initial cash investment funded for the Chartwell transaction discussed in Note 19 to our unaudited consolidated financial statements. During the quarter ended March 31, 2012, we recognized \$555,000 of unrecognized losses associated with the forward contract.

Transaction costs primarily represent costs incurred with the Belmont Village transaction in 2012 and the Silverado and Benchmark transactions in 2011. Transaction costs generally include due diligence costs and fees for legal and valuation services, charges associated with the termination of pre-existing relationships computed based on the fair value of the assets acquired and lease termination fees.

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

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

|   | Three Months Ended |                   | Change    |      |
|---|--------------------|-------------------|-----------|------|
|   | March 31,<br>2012  | March 31,<br>2011 | \$        | %    |
| Revenues:   |                    |                   |           |      |
| Rental income   | \$ 94,464          | \$ 64,153         | \$ 30,311 | 47%  |
| Interest income   | 2,264              | 2,330             | (66)      | -3%  |
| Other income  | 603                | 1,786             | (1,183)   | -66% |
|   | 97,331             | 68,269            | 29,062    | 43%  |
| Property operating expenses   | 22,025             | 14,291            | 7,734     | 54%  |
| Net operating income from continuing operations   | 75,306             | 53,978            | 21,328    | 40%  |
| Other expenses:   |                    |                   |           |      |
| Interest expense  | 10,239             | 6,782             | 3,457     | 51%  |
| Depreciation and amortization   | 33,956             | 22,938            | 11,018    | 48%  |
| Transaction costs   | 2,478              | -                 | 2,478     | n/a  |
|   | 46,673             | 29,720            | 16,953    | 57%  |
| Income from continuing operations before income taxes and income from unconsolidated entities | 28,633             | 24,258            | 4,375     | 18%  |
| Income tax (expense) benefit  | (133)              | (111)             | (22)      | 20%  |
| Income from unconsolidated entities   | 1,861              | 2,108             | (247)     | -12% |
| Income from continuing operations   | 30,361             | 26,255            | 4,106     | 16%  |
| Discontinued operations:  |                    |                   |           |      |
| Gain (loss) on sales of properties  | 769                | -                 | 769       | n/a  |
| Income (loss) from discontinued operations, net   | (178)              | (839)             | 661       | -79% |
| Discontinued operations, net  | 591                | (839)             | 1,430     | n/a  |
| Net income (loss)   | 30,952             | 25,416            | 5,536     | 22%  |
| Less: Net income (loss) attributable to noncontrolling interests                              | 133                | 1,165             | (1,032)   | -89% |
| Net income (loss) attributable to common stockholders   | \$ 30,819          | \$ 24,251         | \$ 6,568  | 27%  |

The increase in rental income is primarily attributable to the acquisitions and construction conversions of medical facilities subsequent to March 31, 2011 from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index (CPI). 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 CPI 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. For the three months ended March 31, 2012, our consolidated medical office building portfolio signed 65,671 square feet of new leases and 220,074 square feet of renewals. The weighted average term of these leases was five years, with a rate of \$20.75 per square foot and tenant improvement and lease commission costs of \$12.31 per square foot. Substantially all of these leases contain an annual fixed or contingent escalation rent structure ranging from the change in CPI to 3%. For the three months ended March 31, 2012, we had no lease renewals and two leases' rental rate increased by 0.25% in our hospital portfolio. Other income is attributable to third party management fee income.

Interest expense for the three months ended March 31, 2012 and 2011 represents \$10,239,000 and \$7,292,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our medical facilities secured debt principal activity (dollars in thousands):

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|                    | Three Months Ended<br>March 31, 2012 |                                | Three Months Ended<br>March 31, 2011 |                                |
|--------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
|                    | Amount                               | Weighted Avg.<br>Interest Rate | Amount                               | Weighted Avg.<br>Interest Rate |
| Beginning balance  | \$ 520,066                           | 5.981%                         | \$ 463,477                           | 6.005%                         |
| Debt assumed       | 158,290                              | 5.859%                         | -                                    | 0.000%                         |
| Debt extinguished  | (17,383)                             | 5.695%                         | -                                    | 0.000%                         |
| Principal payments | (3,319)                              | 6.022%                         | (2,924)                              | 6.057%                         |
| Ending balance     | \$ 657,654                           | 5.959%                         | \$ 460,553                           | 5.996%                         |
| Monthly averages   | \$ 626,821                           | 5.953%                         | \$ 462,058                           | 5.996%                         |

The increase in property operating expenses, depreciation and amortization and transaction costs is primarily attributable to acquisitions and construction conversions of new medical facilities. Income tax expense is primarily related to third party management fee income. Income from unconsolidated entities represents our share of net income related to our joint venture investments with Forest City Enterprises (effective February 2010) and a strategic medical office partnership (effective January 2011).

During the three months ended March 31, 2012, we sold four medical facilities for net gains of \$769,000. Additionally, at March 31, 2012, we had one medical facility that satisfied the requirements for held for sale treatment. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2011 or held for sale at March 31, 2012 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2012                            | 2011     |
| Rental income                          | \$ 248                          | \$ 2,166 |
| Expenses:                              |                                 |          |
| Interest expense                       | -                               | 510      |
| Property operating expenses            | 426                             | 1,751    |
| Provision for depreciation             | -                               | 744      |
| Loss from discontinued operations, net | \$ (178)                        | \$ (839) |

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

to noncontrolling interests is primarily due to the buyout of a joint venture partnership during the three months ended March 31, 2011.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***Non-Segment/Corporate*

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

|  | Three Months Ended |                   | Change      |       |
|--|--------------------|-------------------|-------------|-------|
|  | March 31,<br>2012  | March 31,<br>2011 | \$          | %     |
| Revenues:  |                    |                   |             |       |
| Other income   | \$ 235             | \$ 531            | \$ (296)    | -56%  |
| Expenses:  |                    |                   |             |       |
| Interest expense                                       | 64,116             | 43,445            | 20,671      | 48%   |
| General and administrative                             | 27,751             | 17,714            | 10,037      | 57%   |
|  | 91,867             | 61,159            | 30,708      | 50%   |
| Loss from continuing operations<br>before income taxes | (91,632)           | (60,628)          | (31,004)    | 51%   |
| Income tax (expense) benefit                           | -                  | (17)              | 17          | -100% |
| Net loss   | (91,632)           | (60,645)          | (30,987)    | 51%   |
| Preferred stock dividends                              | 19,207             | 8,680             | 10,527      | 121%  |
| Net loss attributable to<br>common stockholders        | \$ (110,839)       | \$ (69,325)       | \$ (41,514) | 60%   |

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

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

|                           | Three Months Ended |                   | Change    |      |
|---------------------------|--------------------|-------------------|-----------|------|
|                           | March 31,<br>2012  | March 31,<br>2011 | \$        | %    |
| Senior unsecured notes    | \$ 59,301          | \$ 44,457         | \$ 14,844 | 33%  |
| Secured debt              | 122                | 127               | (5)       | -4%  |
| Unsecured lines of credit | 4,113              | 1,271             | 2,842     | 224% |
| Capitalized interest      | (2,420)            | (4,665)           | 2,245     | -48% |
| SWAP savings              | (41)               | (40)              | (1)       | 3%   |
| Loan expense              | 3,041              | 2,295             | 746       | 33%  |
| Totals                    | \$ 64,116          | \$ 43,445         | \$ 20,671 | 48%  |

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

|                   | Three Months Ended<br>March 31, 2012 |                                | Three Months Ended<br>March 31, 2011 |                                |
|-------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
|                   | Amount                               | Weighted Avg.<br>Interest Rate | Amount                               | Weighted Avg.<br>Interest Rate |
| Beginning balance | \$ 4,464,927                         | 5.133%                         | \$ 3,064,930                         | 5.129%                         |
| Debt issued       | -                                    | 0.000%                         | 1,400,000                            | 5.143%                         |
| Debt redeemed     | (22)                                 | 4.750%                         | -                                    | 0.000%                         |
| Ending balance    | \$ 4,464,905                         | 5.133%                         | \$ 4,464,930                         | 5.133%                         |
| Monthly averages  | \$ 4,464,911                         | 5.133%                         | \$ 3,414,930                         | 5.166%                         |

The change in interest expense on the unsecured line of credit arrangements 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 arrangements (dollars in

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thousands):

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2012                         | 2011       |
| Balance outstanding at quarter end   | \$ 5,000                     | \$ -       |
| Maximum amount outstanding at any month end  | \$ 897,000                   | \$ 495,000 |
| Average amount outstanding (total of daily principal balances divided by days in period)           | \$ 480,703                   | \$ 319,222 |
| Weighted average interest rate (actual interest expense divided by average borrowings outstanding) | 1.65%                        | 1.59%      |

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

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

General and administrative expenses as a percentage of consolidated revenues (including revenues from discontinued operations) for the three months ended March 31, 2012 and 2011 were 6.37% and 6.87%, respectively. The change from prior year is primarily related to the increasing revenue base as a result of our seniors housing operating partnerships.

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

|                   | Three Months Ended<br>March 31, 2012 |                                | Three Months Ended<br>March 31, 2011 |                                |
|-------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
|                   | Shares                               | Weighted Avg.<br>Dividend Rate | Shares                               | Weighted Avg.<br>Dividend Rate |
| Beginning balance | 25,724,854                           | 7.013%                         | 11,349,854                           | 7.663%                         |
| Shares issued     | 11,500,000                           | 6.500%                         | 14,375,000                           | 6.500%                         |
| Ending balance    | 37,224,854                           | 6.855%                         | 25,724,854                           | 7.013%                         |
| Monthly averages  | 28,599,854                           | 6.962%                         | 14,943,604                           | 7.383%                         |



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

### **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 and impairment of depreciable assets, plus depreciation and amortization, and after adjustments for unconsolidated entities.

Net operating income from continuing operations ("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. Property operating expenses represent costs associated with managing, maintaining and servicing tenants for our seniors housing operating and medical facility properties. These expenses include, but are not limited to, property-related payroll and benefits, property management fees, marketing, housekeeping, food service, maintenance, utilities, property taxes and insurance. General and administrative expenses represent costs unrelated to property operations or transaction costs. These expenses include, but are not limited to, payroll and benefits, professional services, office expenses and depreciation of corporate fixed assets. Same store cash NOI ("SSCNOI") is used to evaluate the cash-based operating performance of our properties under a consistent population which eliminates changes in the composition of our portfolio. As used herein, same store is defined as those revenue-generating properties in the portfolio for the reporting period January 1, 2011 to March 31, 2012. Properties acquired, developed or classified in discontinued operations during that period are excluded from the same store amounts. We believe NOI and SSCNOI provide investors relevant and useful information because they measure the operating performance of our properties at the property level on an unleveraged basis. We use NOI and SSCNOI 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 \$2 billion unsecured 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. Effective July 27, 2011, our covenant requires an adjusted fixed charge ratio of at least 1.50 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.

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

|  | Three Months Ended |                  |                       |                      |                   |
|--|--------------------|------------------|-----------------------|----------------------|-------------------|
| FFO Reconciliation:                            | March 31,<br>2011  | June 30,<br>2011 | September 30,<br>2011 | December 31,<br>2011 | March 31,<br>2012 |
| Net income (loss) attributable to              |                    |                  |                       |                      |                   |
| common stockholders                            | \$ 23,372          | \$ 69,847        | \$ 36,607             | \$ 27,282            | \$ 39,307         |
| Depreciation and amortization                  | 74,768             | 111,053          | 115,640               | 122,144              | 127,422           |
| Impairment of assets                           | 202                | -                | -                     | 11,992               | -                 |
| Loss (gain) on sales of properties             | (26,156)           | (30,224)         | (185)                 | (4,594)              | (769)             |
| Noncontrolling interests                       | (4,160)            | (4,487)          | (4,706)               | (5,318)              | (4,990)           |
| Unconsolidated entities                        | 3,027              | 3,502            | 3,020                 | 2,892                | 2,887             |
| Funds from operations                          | \$ 71,053          | \$ 149,691       | \$ 150,376            | \$ 154,398           | \$ 163,857        |
| Average common shares outstanding:             |                    |                  |                       |                      |                   |
| Basic  | 154,945            | 176,445          | 177,272               | 185,913              | 199,661           |
| Diluted  | 155,485            | 177,487          | 177,849               | 186,529              | 201,658           |
| Per share data:                                |                    |                  |                       |                      |                   |
| Net income attributable to common stockholders |                    |                  |                       |                      |                   |
| Basic  | \$ 0.15            | \$ 0.40          | \$ 0.21               | \$ 0.15              | \$ 0.20           |
| Diluted  | 0.15               | 0.39             | 0.21                  | 0.15                 | 0.19              |
| Funds from operations                          |                    |                  |                       |                      |                   |
| Basic  | \$ 0.46            | \$ 0.85          | \$ 0.85               | \$ 0.83              | \$ 0.82           |
| Diluted  | 0.46               | 0.84             | 0.85                  | 0.83                 | 0.81              |

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The table below reflects 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,<br>2011  | June 30,<br>2011 | September 30,<br>2011 | December 31,<br>2011 | March 31,<br>2012 |
| <b>EBITDA Reconciliation:</b>           |                    |                  |                       |                      |                   |
| Net income                              | \$ 31,810          | \$ 86,208        | \$ 52,353             | \$ 42,343            | \$ 57,458         |
| Interest expense                        | 59,330             | 84,773           | 87,811                | 90,084               | 93,722            |
| Income tax expense                      | 129                | 211              | 223                   | 825                  | 1,470             |
| Depreciation and<br>amortization        | 74,768             | 111,053          | 115,640               | 122,144              | 127,422           |
| EBITDA                                  | \$ 166,037         | \$ 282,245       | \$ 256,027            | \$ 255,396           | \$ 280,072        |
| <b>Interest Coverage Ratio:</b>         |                    |                  |                       |                      |                   |
| Interest expense                        | \$ 59,330          | \$ 84,773        | \$ 87,811             | \$ 90,084            | \$ 93,722         |
| Non-cash interest expense               | (3,716)            | (2,698)          | (3,714)               | (3,777)              | (3,693)           |
| Capitalized interest                    | 4,665              | 2,313            | 3,111                 | 3,074                | 2,420             |
| Total interest                          | 60,279             | 84,388           | 87,208                | 89,381               | 92,449            |
| EBITDA                                  | \$ 166,037         | \$ 282,245       | \$ 256,027            | \$ 255,396           | \$ 280,072        |
| Interest coverage<br>ratio              | 2.75x              | 3.34x            | 2.94x                 | 2.86x                | 3.03x             |
| <b>Fixed Charge Coverage<br/>Ratio:</b> |                    |                  |                       |                      |                   |
| Total interest                          | \$ 60,279          | \$ 84,388        | \$ 87,208             | \$ 89,381            | \$ 92,449         |
| Secured debt principal<br>payments      | 5,906              | 7,011            | 7,204                 | 7,683                | 8,529             |
| Preferred dividends                     | 8,680              | 17,353           | 17,234                | 17,234               | 19,207            |
| Total fixed charges                     | 74,865             | 108,752          | 111,646               | 114,298              | 120,185           |
| EBITDA                                  | \$ 166,037         | \$ 282,245       | \$ 256,027            | \$ 255,396           | \$ 280,072        |
| Fixed charge<br>coverage ratio          | 2.22x              | 2.60x            | 2.29x                 | 2.23x                | 2.33x             |

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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.

| Adjusted EBITDA<br>Reconciliation:         | March 31,  | June 30,   | Twelve Months Ended   |                      | March 31,    |
|--|------------|------------|-----------------------|----------------------|--------------|
|  | 2011       | 2011       | September 30,<br>2011 | December 31,<br>2011 | 2012         |
| Net income                                 | \$ 129,001 | \$ 164,146 | \$ 216,407            | \$ 212,716           | \$ 238,363   |
| Interest expense                           | 190,305    | 237,528    | 280,354               | 321,998              | 356,390      |
| Income tax expense                         | 407        | 430        | 601                   | 1,388                | 2,729        |
| Depreciation and amortization              | 233,731    | 297,333    | 360,580               | 423,605              | 476,259      |
| Stock-based compensation<br>expense        | 9,866      | 10,350     | 11,106                | 10,786               | 16,552       |
| Provision for loan losses                  | 29,932     | 30,100     | 1,314                 | 2,010                | 1,762        |
| Loss (gain) on extinguishment<br>of debt   | 16,134     | 9,099      | -                     | (979)                | (979)        |
| Adjusted EBITDA                            | \$ 609,376 | \$ 748,986 | \$ 870,362            | \$ 971,524           | \$ 1,091,076 |
| Adjusted Fixed Charge<br>Coverage Ratio:   |            |            |                       |                      |              |
| Interest expense                           | \$ 190,305 | \$ 237,528 | \$ 280,354            | \$ 321,998           | \$ 356,390   |
| Capitalized interest                       | 18,381     | 15,418     | 14,873                | 13,164               | 10,919       |
| Non-cash interest expense                  | (14,820)   | (13,859)   | (13,315)              | (13,905)             | (13,882)     |
| Secured debt principal<br>payments         | 19,180     | 21,866     | 25,051                | 27,804               | 30,427       |
| Preferred dividends                        | 24,816     | 36,685     | 48,572                | 60,501               | 71,028       |
| Total fixed charges                        | 237,862    | 297,638    | 355,535               | 409,562              | 454,882      |
| Adjusted EBITDA                            | \$ 609,376 | \$ 748,986 | \$ 870,362            | \$ 971,524           | \$ 1,091,076 |
| Adjusted fixed<br>charge coverage<br>ratio | 2.56x      | 2.52x      | 2.45x                 | 2.37x                | 2.40x        |

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The following tables reflect the reconciliation of NOI and SSCNOI to net income attributable to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. Amounts are in thousands.

|   | Three Months Ended |                  |                          |                         |                   |
|---|--------------------|------------------|--------------------------|-------------------------|-------------------|
|   | March 31,<br>2011  | June 30,<br>2011 | September<br>30,<br>2011 | December<br>31,<br>2011 | March 31,<br>2012 |
| <b>NOI Reconciliation:</b>                      |                    |                  |                          |                         |                   |
| Total revenues:                                 |                    |                  |                          |                         |                   |
| Seniors housing triple-net                      | \$ 105,670         | \$ 175,162       | \$ 170,509               | \$ 179,399              | \$ 179,619        |
| Seniors housing operating                       | 71,286             | 123,149          | 125,125                  | 136,525                 | 158,174           |
| Medical facilities                              | 68,269             | 75,129           | 81,416                   | 85,689                  | 97,331            |
| Non-segment/corporate                           | 531                | 378              | 307                      | 53                      | 235               |
| Total revenues                                  | 245,756            | 373,818          | 377,357                  | 401,666                 | 435,359           |
| Property operating expenses:                    |                    |                  |                          |                         |                   |
| Seniors housing operating                       | 49,272             | 84,334           | 86,218                   | 94,318                  | 107,243           |
| Medical facilities                              | 14,291             | 15,474           | 17,148                   | 18,422                  | 22,025            |
| Total property operating expenses               | 63,563             | 99,808           | 103,366                  | 112,740                 | 129,268           |
| Net operating income:                           |                    |                  |                          |                         |                   |
| Seniors housing triple-net                      | 105,670            | 175,162          | 170,509                  | 179,399                 | 179,619           |
| Seniors housing operating                       | 22,014             | 38,815           | 38,907                   | 42,207                  | 50,931            |
| Medical facilities                              | 53,978             | 59,655           | 64,268                   | 67,267                  | 75,306            |
| Non-segment/corporate                           | 531                | 378              | 307                      | 53                      | 235               |
| Net operating income from continuing operations | 182,193            | 274,010          | 273,991                  | 288,926                 | 306,091           |
| Reconciling items:                              |                    |                  |                          |                         |                   |
| Interest expense                                | (56,902)           | (82,331)         | (86,119)                 | (88,601)                | (92,712)          |
| Unrealized loss on derivatives                  | -                  | -                | -                        | -                       | (555)             |
| Depreciation and amortization                   | (70,743)           | (108,308)        | (113,565)                | (119,915)               | (125,955)         |
| General and administrative                      | (17,714)           | (19,562)         | (19,735)                 | (20,190)                | (27,751)          |
| Transaction costs                               | (36,065)           | (13,738)         | (6,739)                  | (13,682)                | (5,579)           |
| Gain (loss) on extinguishment of debt           | -                  | -                | -                        | 979                     | -                 |
| Provision for loan losses                       | (248)              | (168)            | (132)                    | (1,463)                 | -                 |

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|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Income tax benefit (expense)                           | (129)     | (211)     | (223)     | (825)     | (1,470)   |
| Income from unconsolidated entities                    | 1,543     | 971       | 1,642     | 1,616     | 1,532     |
| Income (loss) from discontinued operations, net        | 29,875    | 35,545    | 3,233     | (4,502)   | 3,857     |
| Preferred dividends                                    | (8,680)   | (17,353)  | (17,234)  | (17,234)  | (19,207)  |
| Loss (income) attributable to noncontrolling interests | 242       | 992       | 1,488     | 2,173     | 1,056     |
|  | (158,821) | (204,163) | (237,384) | (261,644) | (266,784) |
| Net income (loss) attributable to common stockholders  | \$ 23,372 | \$ 69,847 | \$ 36,607 | \$ 27,282 | \$ 39,307 |

**Same Store Cash NOI**

**Reconciliation:**

Net operating income from continuing operations:

|                            |            |  |  |            |
|----------------------------|------------|--|--|------------|
| Seniors housing triple-net | \$ 105,670 |  |  | \$ 179,619 |
| Seniors housing operating  | 22,014     |  |  | 50,931     |
| Medical facilities         | 53,978     |  |  | 75,306     |
| Total                      | 181,662    |  |  | 305,856    |

Adjustments:

Seniors housing triple-net:

|   |          |  |  |          |
|---|----------|--|--|----------|
| Non-cash NOI on same store properties         | (3,287)  |  |  | (1,638)  |
| NOI attributable to non same store properties | (13,564) |  |  | (86,376) |
| Subtotal                                      | (16,851) |  |  | (88,014) |

Seniors housing operating:

|   |       |  |  |          |
|---|-------|--|--|----------|
| NOI attributable to non same store properties | (737) |  |  | (28,020) |
|---|-------|--|--|----------|

Medical facilities:

|   |         |  |  |          |
|---|---------|--|--|----------|
| Non-cash NOI on same store properties         | (2,392) |  |  | (1,957)  |
| NOI attributable to non same store properties | (3,534) |  |  | (24,860) |
| Subtotal                                      | (5,926) |  |  | (26,817) |

Same store cash net operating income:

|                            |            |        |  |        |
|----------------------------|------------|--------|--|--------|
|                            | Properties |        |  |        |
| Seniors housing triple-net | 348        | 88,819 |  | 91,605 |
| Seniors housing operating  | 47         | 21,277 |  | 22,911 |

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|                    |     |            |  |            |
|--------------------|-----|------------|--|------------|
| Medical facilities | 161 | 48,052     |  | 48,489     |
| Total              | 556 | \$ 158,148 |  | \$ 163,005 |

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

### **Critical Accounting Policies**

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

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors. 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 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2012.

### **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 facilities; the performance of its operators/tenants and facilities; its ability to enter into agreements with viable new tenants for vacant space or for facilities that the company takes back from financially troubled tenants, if any; its occupancy rates; its ability to acquire, develop and/or manage facilities; its ability to make distributions to stockholders; its policies and plans regarding investments, financings and other matters; its ability to manage the risks associated with international expansion and operations; its tax status as a real estate investment trust; its critical accounting policies; its ability to appropriately balance the use of debt and equity; its ability to access capital markets or other sources of funds; and its ability to meet its earnings guidance. When the company uses words such as "may," "will," "intend," "should," "believe," "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, seniors 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 facilities; 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 facilities; changes in rules or practices governing the company's financial reporting; the movement of U.S. and Canadian exchange rates; 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, 2011, 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.

**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 primary unsecured line of credit arrangement to acquire, construct or make loans relating to health care and seniors 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 arrangements.

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

|                           | March 31, 2012       |                         | December 31, 2011    |                         |
|---------------------------|----------------------|-------------------------|----------------------|-------------------------|
|                           | Principal<br>balance | Change in<br>fair value | Principal<br>balance | Change in<br>fair value |
| Senior unsecured<br>notes | \$ 4,464,905         | \$ (347,812)            | \$ 4,464,927         | \$ (342,460)            |
| Secured debt              | 1,937,703            | (178,781)               | 1,693,283            | (82,583)                |
| Totals                    | \$ 6,402,608         | \$ (526,593)            | \$ 6,158,210         | \$ (425,043)            |

As of March 31, 2012, we had eight interest rate swaps for a total aggregate notional amount of \$134,505,000. The swaps hedge interest payments associated with long-term LIBOR based borrowings and mature between December 31, 2012 and December 31, 2013.

Our variable rate debt, including our unsecured line of credit arrangements, is reflected at cost which approximates fair value. At March 31, 2012, we had \$5,000,000 outstanding related to our variable rate lines of credit and \$262,243,000 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 \$2,672,000. At December 31, 2011, we had \$610,000,000 outstanding related to our variable rate lines of credit and \$415,101,000 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 \$10,251,000.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority

of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

For additional information regarding fair values of financial instruments, see “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” and Notes 11 and 16 to our unaudited consolidated financial statements.

**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, 2011.

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

## Issuer Purchases of Equity Securities

| Period   | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid Per Share | Total Number of<br>Shares Purchased<br>as Part of<br>Publicly<br>Announced Plans<br>or Programs <sup>(2)</sup> | Maximum<br>Number of<br>Shares that May<br>Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|--|--|---------------------------------|--|--|
| January 1, 2012 through<br>January 31, 2012      | 66,377   | \$ 56.12                        |  |  |
| February 1, 2012<br>through February 29,<br>2012 | -  | -                               |  |  |
| March 1, 2012 through<br>March 31, 2012          | 103  | 54.20                           |  |  |
| Totals   | 66,480   | \$ 56.11                        |  |  |

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- (1) During the three months ended March 31, 2012, the company acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.
- (2) No shares were purchased as part of publicly announced plans or programs.

**Item 6. Exhibits**

3.1 Certificate of Designation of 6.50% Series J Cumulative Redeemable Preferred Stock of the company (filed with the Securities and Exchange Commission as Exhibit 3.1 to the company's Form 8-K filed March 8, 2012, and incorporated herein by reference thereto).

4.1 Indenture, dated as of March 15, 2010, between the company and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (filed with the Securities and Exchange Commission as Exhibit 4.1 to the company's Form 8-K filed March 15, 2010, and incorporated herein by reference thereto).

4.2 Supplemental Indenture No. 6, dated as of April 3, 2012, 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 4, 2012, and incorporated herein by reference thereto).

12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (Unaudited)

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1 Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.

32.2 Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.

101.INS XBRL Instance Document\*

101.SCH XBRL Taxonomy Extension Schema Document\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

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\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2012 and December 31, 2011, (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011, (iii) the Consolidated Statements of Equity for the three months ended March 31, 2012 and 2011, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and

2011 and (v) the Notes to Unaudited Consolidated Financial Statements.

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

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

**HEALTH CARE REIT, INC.**

Date: May 10, 2012

By: /s/ GEORGE L. CHAPMAN  
George L. Chapman,  
Chairman, Chief Executive Officer and President

(Principal Executive Officer)

Date: May 10, 2012

By: /s/ SCOTT A. ESTES  
Scott A. Estes,  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Date: May 10, 2012

By: /s/ PAUL D. NUNGESTER, JR.  
Paul D. Nungester, Jr.,  
Senior Vice President and Controller

(Principal Accounting Officer)

## EXHIBIT 12

**STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND  
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS  
(UNAUDITED)**

|  | Year Ended December 31, |            |            |            |            | Three Months Ended |            |
|--|-------------------------|------------|------------|------------|------------|--------------------|------------|
|  | 2007                    | 2008       | 2009       | 2010       | 2011       | 2011               | 2012       |
|  | March 31,               |            |            |            |            |                    |            |
|  | (dollars in thousands)  |            |            |            |            |                    |            |
| Earnings:  |                         |            |            |            |            |                    |            |
| Pretax income from continuing operations before adjustment for income or loss from equity investees <sup>(1)</sup> | \$ 85,368               | \$ 117,258 | \$ 133,774 | \$ 63,084  | \$ 144,180 | \$ 521             | \$ 53,539  |
| Fixed charges  | 118,177                 | 127,881    | 121,862    | 153,658    | 313,213    | 57,851             | 91,439     |
| Capitalized interest   | (12,526)                | (25,029)   | (41,170)   | (20,792)   | (13,164)   | (4,665)            | (2,420)    |
| Amortized premiums, discounts and capitalized expenses related to indebtedness                                     | 8,413                   | 11,231     | 11,898     | 13,945     | 13,905     | 3,716              | 3,693      |
| Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges                     | (238)                   | (126)      | 342        | (357)      | 4,894      | 242                | 1,056      |
| Earnings   | \$ 199,194              | \$ 231,215 | \$ 226,706 | \$ 209,538 | \$ 463,028 | \$ 57,665          | \$ 147,307 |
| Fixed charges:   |                         |            |            |            |            |                    |            |
| Interest expense <sup>(1)</sup>  | \$ 114,064              | \$ 114,083 | \$ 92,590  | \$ 146,811 | \$ 313,954 | \$ 56,902          | \$ 92,712  |
| Capitalized interest   | 12,526                  | 25,029     | 41,170     | 20,792     | 13,164     | 4,665              | 2,420      |
| Amortized premiums, discounts and capitalized expenses related to indebtedness                                     | (8,413)                 | (11,231)   | (11,898)   | (13,945)   | (13,905)   | (3,716)            | (3,693)    |
| Fixed charges  | \$ 118,177              | \$ 127,881 | \$ 121,862 | \$ 153,658 | \$ 313,213 | \$ 57,851          | \$ 91,439  |

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|  |            |            |            |            |            |           |            |
|--|------------|------------|------------|------------|------------|-----------|------------|
| Consolidated ratio of earnings to fixed charges  | 1.69       | 1.81       | 1.86       | 1.36       | 1.48       | 1.00      | 1.61       |
| Earnings:  |            |            |            |            |            |           |            |
| Pretax income from continuing operations before adjustment for income or loss from equity investees <sup>(1)</sup> | \$ 85,368  | \$ 117,258 | \$ 133,774 | \$ 63,084  | \$ 144,180 | \$ 521    | \$ 53,539  |
| Fixed charges  | 118,177    | 127,881    | 121,862    | 153,658    | 313,213    | 57,851    | 91,439     |
| Capitalized interest   | (12,526)   | (25,029)   | (41,170)   | (20,792)   | (13,164)   | (4,665)   | (2,420)    |
| Amortized premiums, discounts and capitalized expenses related to indebtedness                                     | 8,413      | 11,231     | 11,898     | 13,945     | 13,905     | 3,716     | 3,693      |
| Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges                     | (238)      | (126)      | 342        | (357)      | 4,894      | 242       | 1,056      |
| Earnings   | \$ 199,194 | \$ 231,215 | \$ 226,706 | \$ 209,538 | \$ 463,028 | \$ 57,665 | \$ 147,307 |
| Fixed charges:   |            |            |            |            |            |           |            |
| Interest expense <sup>(1)</sup>  | \$ 114,064 | \$ 114,083 | \$ 92,590  | \$ 146,811 | \$ 313,954 | \$ 56,902 | \$ 92,712  |
| Capitalized interest   | 12,526     | 25,029     | 41,170     | 20,792     | 13,164     | 4,665     | 2,420      |
| Amortized premiums, discounts and capitalized expenses related to indebtedness                                     | (8,413)    | (11,231)   | (11,898)   | (13,945)   | (13,905)   | (3,716)   | (3,693)    |
| Fixed charges  | 118,177    | 127,881    | 121,862    | 153,658    | 313,213    | 57,851    | 91,439     |
| Preferred stock dividends  | 25,130     | 23,201     | 22,079     | 21,645     | 60,502     | 8,680     | 19,207     |
| Combined fixed charges and preferred stock dividends   | \$ 143,307 | \$ 151,082 | \$ 143,941 | \$ 175,303 | \$ 373,715 | \$ 66,531 | \$ 110,646 |
| Consolidated ratio of earnings   | 1.39       | 1.53       | 1.57       | 1.20       | 1.24       | 0.87      | 1.33       |

to combined  
fixed charges and  
preferred stock  
dividends

(1) We have reclassified the income and expenses attributable to the properties sold prior to or held for sale at March 31, 2012 to discontinued operations.

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