

HEALTH CARE REIT INC /DE/

Form 10-Q

May 10, 2007

Table of Contents

**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, 2007

or

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

For the transition period from _____ to _____

**Commission File number 1-8923
HEALTH CARE REIT, INC.**

(Exact name of registrant as specified in its charter)

Delaware

34-1096634

(State or other jurisdiction of
incorporation or organization)

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

One SeaGate, Suite 1500, Toledo, Ohio

43604

(Address of principal executive office)

(Zip Code)

(419) 247-2800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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, 2007, the registrant had 80,519,995 shares of common stock outstanding.

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets March 31, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Income Three months ended March 31, 2007 and 2006</u>	4
<u>Consolidated Statements of Stockholders Equity Three months ended March 31, 2007 and 2006</u>	5
<u>Consolidated Statements of Cash Flows Three months ended March 31, 2007 and 2006</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
Signatures	32
<u>EX-10.3</u>	
<u>EX-10.4</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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

	March 31, 2007 (Unaudited)	December 31 2006 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned		
Land	\$ 394,002	\$ 386,693
Buildings & improvements	3,783,163	3,659,065
Acquired lease intangibles	85,110	84,082
Real property held for sale, net of accumulated depreciation	4,236	14,796
Construction in progress	169,782	138,222
	4,436,293	4,282,858
Less accumulated depreciation and amortization	(381,448)	(347,007)
Total real property owned	4,054,845	3,935,851
Loans receivable	256,945	194,448
Less allowance for losses on loans receivable	(7,406)	(7,406)
	249,539	187,042
Net real estate investments	4,304,384	4,122,893
Other assets:		
Equity investments	4,700	4,700
Deferred loan expenses	19,767	20,657
Cash and cash equivalents	31,293	36,216
Receivables and other assets	98,510	96,144
	154,270	157,717
Total assets	\$ 4,458,654	\$ 4,280,610
Liabilities and stockholders' equity		
Liabilities:		
Borrowings under unsecured lines of credit arrangements	\$ 381,000	\$ 225,000
Senior unsecured notes	1,542,103	1,541,814
Secured debt	377,013	378,972
Liability to subsidiary trust issuing preferred securities	52,205	52,215
Accrued expenses and other liabilities	95,595	101,588
Total liabilities	2,447,916	2,299,589
Minority interests	2,354	2,228

Stockholders' equity:		
Preferred stock, \$1.00 par value:	338,993	338,993
Authorized - 25,000,000 shares		
Issued and outstanding - 13,174,989 shares at March 31, 2007 and December 31, 2006		
Common stock, \$1.00 par value:	73,931	73,152
Authorized - 125,000,000 shares		
Issued - 74,195,044 shares at March 31, 2007 and 73,272,052 shares at December 31, 2006		
Outstanding - 74,091,131 shares at March 31, 2007 and 73,192,128 at December 31, 2006		
Capital in excess of par value	1,902,186	1,873,811
Treasury stock	(3,941)	(2,866)
Cumulative net income	962,526	932,853
Cumulative dividends	(1,267,462)	(1,238,860)
Accumulated other comprehensive income	(135)	(135)
Other equity	2,286	1,845
Total stockholders' equity	2,008,384	1,978,793
Total liabilities and stockholders' equity	\$ 4,458,654	\$ 4,280,610

NOTE: The consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

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

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share data)	
Revenues:		
Rental income	\$ 105,904	\$ 71,380
Interest income	5,149	4,262
Other income	1,592	366
	112,645	76,008
Expenses:		
Interest expense	31,922	23,523
Property operating expenses	7,168	0
Depreciation and amortization	33,860	21,825
General and administrative	9,793	5,976
Loan expense	1,267	711
Provision for loan losses	0	250
	84,010	52,285
Income before minority interests	28,635	23,723
Minority interests	(126)	0
Income from continuing operations	28,509	23,723
Discontinued operations:		
Net gain (loss) on sales of properties	977	1,553
Income (loss) from discontinued operations, net	187	(298)
	1,164	1,255
Net income	29,673	24,978
Preferred stock dividends	6,317	5,333
Net income available to common stockholders	\$ 23,356	\$ 19,645
Average number of common shares outstanding:		
Basic	73,224	58,178

Diluted	73,791	58,535
Earnings per share:		
Basic:		
Income from continuing operations available to common stockholders	\$ 0.30	\$ 0.32
Discontinued operations, net	0.02	0.02
Net income available to common stockholders*	\$ 0.32	\$ 0.34
Diluted:		
Income from continuing operations available to common stockholders	\$ 0.30	\$ 0.31
Discontinued operations, net	0.02	0.02
Net income available to common stockholders*	\$ 0.32	\$ 0.34
Dividends declared and paid per common share	\$ 0.2991	\$ 0.6200

* Amounts may not sum due to rounding

See notes to unaudited consolidated financial statements

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
HEALTH CARE REIT, INC. AND SUBSIDIARIES****Three Months Ended March 31, 2007**

			Capital in			Accumulated			
	Preferred	Common	Excess of	Treasury	Cumulative	Cumulative	Other	Other	
	Stock	Stock	Par Value	Stock	Net Income	Dividends	Income	Equity	Total
(In thousands)									
Balances at beginning of period	\$338,993	\$73,152	\$1,873,811	\$(2,866)	\$932,853	\$(1,238,860)	(\$135)	\$1,845	\$1,978,793
Comprehensive income:									
Net income					29,673				29,673
Other comprehensive income:									0
Total comprehensive income									29,673
Proceeds from issuance of common shares									
from dividend reinvestment and stock incentive plans, net of forfeitures		779	28,375	(1,075)				(100)	27,979
Compensation expense related to stock options								541	541
Cash dividends paid:									
Common stock-\$0.2991 per share						(22,285)			(22,285)
Preferred stock, Series D-\$0.4922 per share						(1,969)			(1,969)
Preferred stock, Series E-\$0.3750 per share						(28)			(28)
Preferred stock, Series F-\$0.4766						(3,336)			(3,336)

per share
Preferred stock,
Series G-\$0.4688
per share

(984)

(984)

Balances at end
of period

\$338,993 \$73,931 \$1,902,186 \$(3,941) \$962,526 \$(1,267,462) \$ (135) \$2,286 \$2,008,384

Three Months Ended March 31, 2006

Preferred Stock	Common Stock	Capital In Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income	Other Equity	Total
--------------------	-----------------	--------------------------------------	-------------------	-----------------------------	-------------------------	---	-----------------	-------

(In thousands)

Balances at
beginning of
period
Comprehensive
income:
Net income
Other
comprehensive
income:

\$276,875	\$58,050	\$1,306,471	\$(2,054)	\$830,103	\$(1,039,032)	\$0	\$ 343	\$1,430,756
-----------	----------	-------------	-----------	-----------	---------------	-----	--------	-------------

Net income

24,978

24,978

Other
comprehensive
income:

0

Total
comprehensive
income

24,978

Proceeds from
issuance of
common shares
from dividend
reinvestment and
stock incentive
plans, net of
forfeitures
SFAS 123(R)
reclassification
Compensation
expense related to
stock options
Cash dividends
paid:
Common
stock-\$0.62 per
share
Preferred stock,
Series D-\$0.4922

635

20,391

(660)

(18)

20,348

(521)

521

0

491

491

(36,323)

(36,323)

(1,969)

(1,969)

per share									
Preferred stock,									
Series E-\$0.3750									
per share						(28)		(28)	
Preferred stock,									
Series F-\$0.4766									
per share						(3,336)		(3,336)	

Balances at end of									
period	\$276,875	\$58,685	\$1,326,341	\$(2,714)	\$855,081	\$(1,080,688)	\$0	\$1,337	\$1,434,917

See notes to unaudited consolidated financial statements

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

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
Operating activities		
Net income	\$ 29,673	\$ 24,978
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	33,860	23,262
Other amortization expenses	1,174	693
Capitalized interest	(2,327)	(665)
Provision for loan losses	0	250
Stock-based compensation expense	3,177	2,514
Minority interests	126	0
Rental income less than (in excess of) cash received	(2,613)	7,910
(Gain) loss on sales of properties	(977)	(1,553)
Increase (decrease) in accrued expenses and other liabilities	(3,001)	8,809
Decrease (increase) in receivables and other assets	2,266	(1,645)
Net cash provided from (used in) operating activities	61,358	64,553
Investing activities		
Investment in real property	(161,675)	(89,994)
Investment in loans receivable	(80,427)	(5,324)
Other investments, net of payments	(2,716)	0
Principal collected on loans receivable	17,929	24,094
Proceeds from sales of properties	11,537	14,527
Other	(523)	(496)
Net cash provided from (used in) investing activities	(215,875)	(57,193)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	156,000	6,000
Principal payments on secured debt	(1,894)	(643)
Net proceeds from the issuance of common stock	24,467	18,985
Decrease (increase) in deferred loan expense	(377)	(525)
Cash distributions to stockholders	(28,602)	(41,656)
Net cash provided from (used in) financing activities	149,594	(17,839)
Increase (decrease) in cash and cash equivalents	(4,923)	(10,479)
Cash and cash equivalents at beginning of period	36,216	36,237
Cash and cash equivalents at end of period	\$ 31,293	\$ 25,758
Supplemental cash flow information-interest paid	\$ 21,934	\$ 17,477

See notes to unaudited consolidated financial statements

6

Table of Contents

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A 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 for a fair presentation have been included. Operating results for the three months ended March 31, 2007 are not necessarily an indication of the results that may be expected for the year ending December 31, 2007. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2006.

NOTE B Windrose Medical Properties Trust Merger

As discussed in our Annual Report on Form 10-K/A for the year ended December 31, 2006, we completed our merger with Windrose Medical Properties Trust on December 20, 2006. These operations are the principal component of our operating property segment (see Note M). Allocation of the purchase price has not been finalized and is subject to adjustment.

NOTE C Real Estate Investments

During the three months ended March 31, 2007, we invested \$161,675,000 of cash in real property (including \$36,162,000 of cash advances for construction in progress) and provided cash loan financings of \$80,427,000. We also converted \$6,921,000 of completed construction projects into operating lease properties during the three months ended March 31, 2007. As of March 31, 2007, we had \$339,893,000 of unfunded construction commitments relating to existing construction in progress projects. Also during the three months ended March 31, 2007, we sold real property generating \$11,537,000 of net cash proceeds and collected \$17,929,000 of cash as repayment of principal on loans receivable.

NOTE D Equity Investments

Equity investments consist of investments in private companies where we do not have the ability to exercise influence and are accounted for under the cost method. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments. For investments in public companies, if any, that have readily determinable fair market values, we classify our equity investments as available-for-sale and, accordingly, record these investments at their fair market values with unrealized gains and losses included in accumulated other comprehensive income, a separate component of stockholders' equity. These investments represent a minimal ownership interest in these companies. In connection with the Windrose merger, we assumed a \$1,000,000 investment in an unconsolidated subsidiary that holds trust preferred securities and is accounted for under the cost method.

NOTE E Distributions Paid to Common Stockholders

On February 20, 2007, we paid a dividend of \$0.2991 per share to stockholders of record on January 31, 2007. This represents a total dividend of \$0.64 per share when combined with the prorated dividend of \$0.3409 per share paid on December 28, 2006 in connection with the Windrose merger. These dividends related to the period from October 1, 2006 through December 31, 2006.

NOTE F Fair Value of Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to 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. Derivatives are recorded at fair market value on the balance sheet as assets or liabilities.

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

On May 6, 2004, we entered into two interest rate swap agreements (the Swaps) for a total notional amount of \$100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of \$100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method to assess effectiveness. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2007, the Swaps were reported at their fair value as a \$1,230,000 other asset (\$902,000 other asset at December 31, 2006). For the three months ended March 31, 2007, we generated \$1,000 of savings related to the Swaps that was recorded as a reduction to interest expense. For the three months ended March 31, 2006, we incurred \$15,000 of losses related to the Swaps that was recorded as an addition to interest expense.

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are estimated by a third party consultant, which utilizes pricing models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future.

NOTE G Discontinued Operations

One assisted living facility was held for sale as of March 31, 2007. We did not recognize an impairment loss on this asset as the fair value less estimated costs to sell exceeded our carrying value. During the three months ended March 31, 2007, we sold two assisted living facilities with carrying values of \$10,560,000 for a net gain of \$977,000. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we have reclassified the income and expenses attributable to all properties sold and attributable to the properties held for sale at March 31, 2007 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 of Statement No. 144 as a result of classifying properties as discontinued operations for the periods presented (in thousands):

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Rental income	\$ 264	\$ 2,079
Expenses:		
Interest expense	77	715
Provision for depreciation	0	1,437
General and administrative	0	225
Income (loss) from discontinued operations, net	\$ 187	\$ (298)

NOTE H Contingent Liabilities

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide workers compensation insurance to one of our tenants. Our obligation under the letter of credit matures in 2009. At March 31, 2007, our obligation under the letter of credit was \$2,450,000.

As of March 31, 2007, we had \$339,893,000 of unfunded construction commitments.

NOTE I Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes unrealized gains or losses on our equity investments and unrecognized actuarial losses from the adoption of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. An amendment of FASB Statements No. 87, 88, 106 and

132(R) on December 31, 2006. These items are included as a component of stockholders' equity. We did not recognize any comprehensive income other than the recorded net income for the three months ended March 31, 2007 or 2006.

Table of Contents**HEALTH CARE REIT, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE J 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 March 31,	
		2007	2006
Numerator for basic and diluted earnings per share	net income available to common stockholders	\$ 23,356	\$ 19,645
Denominator for basic earnings per share	weighted average shares	73,224	58,178
Effect of dilutive securities:			
Employee stock options		178	97
Non-vested restricted shares		389	260
Dilutive potential common shares		567	357
Denominator for diluted earnings per share	adjusted weighted average shares	73,791	58,535
Basic earnings per share		\$ 0.32	\$ 0.34
Diluted earnings per share		\$ 0.32	\$ 0.34

The diluted earnings per share calculation excludes the dilutive effect of 124,000 stock options for the three months ended March 31, 2007 because the exercise prices were greater than the average market price. The diluted earnings per share calculation excludes the dilutive effect of 257,000 stock options for the three months ended March 31, 2006 because the exercise prices were greater than the average market price. The Series E Cumulative Convertible and Redeemable Preferred Stock, the Series G Cumulative Convertible Preferred Stock and the \$345,000,000 senior unsecured convertible notes due December 2026 were not included in these calculations as the effect of the conversions into common stock were anti-dilutive for the relevant periods presented.

NOTE K Other Equity

Other equity consists of accumulated option compensation expense which represents the amount of amortized compensation costs related to stock options awarded to employees and directors subsequent to January 1, 2003. Expense, which is recognized as the options vest based on the market value at the date of the award, totaled \$541,000 for the three months ended March 31, 2007 and \$491,000 for the same period in 2006.

NOTE L Stock Incentive Plans

Our 2005 Long-Term Incentive Plan authorizes up to 2,200,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. The 2005 Plan replaced the 1995 Stock Incentive Plan and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan continue to vest through 2010 and expire ten years from the date of grant. Our non-employee directors, officers and key employees are eligible to participate in the 2005 Plan. The 2005 Plan allows for the issuance of, among other things, stock options, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares range from three years for directors to five years for officers and key employees. Options expire ten years from the date of grant.

Table of Contents**HEALTH CARE REIT, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Valuation Assumptions***

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Dividend yield (1)	5.60%	6.79%
Expected volatility	19.9%	20.3%
Risk-free interest rate	4.74%	4.35%
Expected life (in years)	5	5
Weighted-average fair value (1)	\$ 8.31	\$ 5.26

(1) Certain options granted to employees include dividend equivalent rights (DERs). The fair value of options with DERs also includes the net present value of projected future dividend payments over the expected life of the option discounted at the dividend yield rate.

The dividend yield represented the dividend yield of our common stock on the dates of grant. Our computation of expected volatility was based on historical volatility. The risk-free interest rates used were the 10-year U.S. Treasury Notes yield on the dates of grant. The expected life was based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations regarding future employee behavior.

Option Award Activity

The following table summarizes information about stock option activity for the three months ended March 31, 2007:

	Number of Shares (000 s)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Aggregate Intrinsic Value (\$000 s)
Stock Options				
Options at beginning of year	917	\$ 30.79	7.9	

Options granted	124	45.73			
Options exercised	(332)	28.18			
Options terminated	(2)	39.67			
Options at end of period	707	\$ 34.61	7.7	\$ 6,565	
Options exercisable at end of period	325	\$ 30.94	6.7	\$ 4,214	
Weighted average fair value of options granted during the period		\$ 8.31			

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the quoted price of our common stock for the options that were in-the-money at March 31, 2007. During the three months ended March 31, 2007, the aggregate intrinsic value of options exercised under our stock incentive plans was \$5,341,000 determined as of the date of option exercise. During the three months ended March 31, 2006, the aggregate intrinsic value of options exercised under our stock incentive plans was \$1,825,000 determined as of the date of option exercise. Cash received from option exercises under our stock incentive plans for the three months ended March 31, 2007 was \$9,354,000. Cash received from option exercises under our stock incentive plans for the three months ended March 31, 2006 was \$2,232,000.

As of March 31, 2007, there was approximately \$3,074,000 of total unrecognized compensation cost related to unvested stock options granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of three years. As of March 31, 2007, there was approximately \$11,966,000 of total unrecognized compensation cost related to unvested restricted stock granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of four years.

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

The following table summarizes information about non-vested stock incentive awards as of March 31, 2007 and changes for the three months ended March 31, 2007:

	Stock Options		Restricted Stock	
	Number of Shares (000 s)	Weighted Average Grant Date Fair Value	Number of Shares (000 s)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2006	478	\$ 5.35	248	\$ 34.07
Vested	(218)	3.78	(118)	35.22
Granted	124	8.31	260	44.85
Terminated	(2)	7.55	(1)	39.36
Non-vested at March 31, 2007	382	\$ 7.20	389	\$ 40.91

NOTE M Segment Reporting

Our business consists primarily of financing and leasing senior housing and health care real estate. We evaluate our business and make resource allocations on our two business segments investment properties and operating properties. Under the investment property segment, we invest in senior housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our primary investment property types include skilled nursing facilities, assisted living facilities, independent living/continuing care retirement communities and specialty care facilities. Under the operating property segment, we primarily invest in medical office buildings that are typically leased under gross leases, modified gross leases or triple-net leases, to multiple tenants, and generally require a certain level of property management. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2006). There are no intersegment sales or transfers. We evaluate performance based upon net operating income of the combined properties in each segment.

Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, accounts receivable and deferred financing costs among others. Non-property specific revenues and expenses are not allocated to individual segments in determining our performance measure.

Summary information for the reportable segments during the three months ended March 31, 2007 and 2006 is as follows (in thousands):

	Rental Income (1)	Interest Income	Other Income	Total Revenues (1)	Property Operating Expenses	Net Operating Income (2)	Real Estate Depreciation/ Amortization (1)	Interest Expense (1)	Total Assets
Three months ended March 31, 2007:									
Investment Properties	\$ 80,603	\$ 5,149		\$ 85,752		\$ 85,752	\$ 24,379	\$ 2,310	\$ 3,331,385
Operating Properties	25,565			25,565	\$ 7,168	18,397	9,481	4,305	972,999
Non-segment/Corporate			\$ 1,592	1,592				25,384	154,270
	\$ 106,168	\$ 5,149	\$ 1,592	\$ 112,909	\$ 7,168	\$ 104,149	\$ 33,860	\$ 31,999	\$ 4,458,654

Three months ended

March 31, 2006:

Investment Properties	\$ 73,459	\$ 4,262		\$ 77,721		\$ 77,721	\$ 23,262	\$ 1,978	\$ 2,909,603
Operating Properties									
Non-segment/Corporate			\$ 366	366				22,260	103,037
	\$ 73,459	\$ 4,262	\$ 366	\$ 78,087	\$ 0	\$ 77,721	\$ 23,262	\$ 24,238	\$ 3,012,640

- (1) Includes amounts from discontinued operations.
- (2) Net operating income (NOI) is used to evaluate the operating performance of certain real estate properties such as medical office buildings. We define NOI as rental revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments, interest expense and discontinued operations. We believe NOI provides investors relevant and useful information because it measures the

operating
performance of
our medical
office buildings
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 medical
office buildings.

Table of Contents

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE N New Accounting Pronouncements

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Interpretation prescribes guidance for recognizing, measuring, reporting and disclosing a tax position taken or expected to be taken in a tax return. The adoption of the Interpretation did not have a material impact on our financial position or results of operations.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 will be effective for fiscal year 2007. Adoption of SFAS 157 is not expected to have a material impact on our financial position, although additional disclosures may be required.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which permits companies to elect to measure certain eligible items at fair value. Subsequent unrealized gains and losses on those items will be reported in earnings. Upfront costs and fees related to those items will be reported in earnings as incurred and not deferred. SFAS 159 is effective for fiscal years beginning after November 15, 2007. If a company elects to apply the provisions of the SFAS 159 to eligible items existing at that date, the effect of the remeasurement to fair value will be reported as a cumulative effect adjustment to the opening balance of retained earnings. Retrospective application will not be permitted. We are currently assessing whether we will elect to use the fair value option for any eligible items.

NOTE O Significant Changes and Events

Common Stock Issuance

On April 18, 2007, we completed a public offering of 6,325,000 shares of common stock with net proceeds to the company of approximately \$265,337,000.

Line of Credit Extension

Subsequent to March 31, 2007, we extended the maturity of our \$40,000,000 unsecured line of credit arrangement from May 31, 2007 to May 30, 2008 and reduced the pricing from 0.9% to 0.8% over LIBOR interest rate.

Rendina/Paramount Acquisition

On January 11, 2007, we announced an agreement to purchase a portfolio of medical office buildings from affiliates of Rendina Companies. As part of the transaction, we also agreed to acquire Paramount Real Estate Services, the property management group of Rendina Companies. The property portfolio includes 17 medical office buildings in ten states. The transactions are anticipated to close in the second quarter of 2007.

Table of Contents**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/A for the year ended December 31, 2006, including factors identified under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Executive Overview**Business**

Health Care REIT, Inc. is a self-administered, equity real estate investment trust that invests in the full spectrum of senior housing and health care real estate. Founded in 1970, we were the first REIT to invest exclusively in health care facilities. The following table summarizes our portfolio as of March 31, 2007:

Type of Property	Investments (1) (in thousands)	Percentage of Investments	Revenues (2) (in thousands)	Percentage of Revenues (2)	Number of Properties	# Beds/Units or Sq. Ft.	Investment per metric (3)	Operators/ Tenants	States
Independent living/CCRCs	\$ 550,462	13%	\$ 10,223	9%	48	5,685 units	\$129,977 per unit	20	20
Assisted living facilities	1,045,546	24%	26,528	23%	208	12,590 units	91,598 per unit	26	33
Skilled nursing facilities	1,547,904	36%	43,494	39%	233	31,668 beds	49,233 per bed	22	28
Medical office buildings	899,599	21%	23,788	21%	90	3,317,476 sq. ft.	271 per sq. ft.	636	13
Specialty care facilities	270,729	6%	7,284	7%	18	1,391 beds	218,044 per bed	9	9
Other income			1,592	1%					
Totals	\$ 4,314,240	100%	\$ 112,909	100%	597				

(1) Investments include gross real estate investments and credit enhancements which amounted to \$4,311,790,000 and \$2,450,000, respectively.

(2) Revenues include gross revenues and revenues from discontinued operations for the three months ended March 31, 2007.

(3) Investment per Bed/Unit was computed by using the total investment amount of \$4,654,133,000 which includes gross real estate investments, credit enhancements and unfunded construction commitments for which initial funding has commenced which amounted to \$4,311,790,000, \$2,450,000 and \$339,893,000, respectively.

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

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

efforts, we are typically able to intervene at an early stage to address payment risk, and in so doing, support both the collectibility 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. We typically limit our investments to no more than 90% of the appraised value of a property. 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, 2007, rental income and interest income represented 94% and 5%, respectively, of total gross revenues (including revenues from discontinued operations). Substantially all of our operating leases are designed with either fixed

Table of Contents

or contingent escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectibility 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 anticipate investing in additional properties. New investments are generally funded from temporary borrowings under our unsecured lines of credit arrangements, internally generated cash and the proceeds from sales of real property. Our investments generate internal cash from rent and interest receipts and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under the unsecured lines of credit arrangements, is expected to be provided through a combination of public and private offerings of debt and equity securities and the incurrence or assumption of secured debt. We believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and finance future investments.

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. During the three months ended March 31, 2007, we completed \$243,657,000 of gross new investments and had \$24,742,000 of investment payoffs, resulting in net investments of \$218,915,000. We expect to complete gross new investments of \$1.0 billion to \$1.2 billion during 2007, including acquisitions of approximately \$700,000,000 to \$800,000,000 and funded new development of approximately \$300,000,000 to \$400,000,000. We anticipate the sale of real property and the repayment of loans receivable totaling approximately \$100,000,000 to \$200,000,000 resulting in net new investments of \$800,000,000 to \$1.1 billion during 2007. 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 lines of credit arrangements. At March 31, 2007, we had \$31,293,000 of cash and cash equivalents and \$359,000,000 of available borrowing capacity under our unsecured lines of credit arrangements.

Windrose Medical Properties Trust Merger

As discussed in our Annual Report on Form 10-K/A for the year ended December 31, 2006, we completed our merger with Windrose Medical Properties Trust on December 20, 2006. These operations are the principal component of our operating property segment (see Note M to our unaudited consolidated financial statements). The results of operations for this segment represent the primary change in our consolidated results of operations from the prior year. Allocation of the purchase price has not been finalized and is subject to adjustment.

Rendina/Paramount Acquisition

On January 11, 2007, we announced an agreement to purchase a portfolio of medical office buildings from affiliates of Rendina Companies. As part of the transaction, we also agreed to acquire Paramount Real Estate Services, the property management group of Rendina Companies. The property portfolio includes 17 medical office buildings in ten states. The transactions are anticipated to close in the second quarter of 2007.

Key Transactions in 2007

We have completed the following key transactions to date in 2007:
our Board of Directors increased our quarterly dividend to \$0.66 per share, which represents a two cent increase from the quarterly dividend of \$0.64 paid for 2006. The dividend declared for the quarter ended March 31, 2007 represents the 144th consecutive dividend payment;

we completed \$243,657,000 of gross investments and had \$24,742,000 of investment payoffs during the three months ended March 31, 2007;

we completed a public offering of 6,325,000 shares of common stock with net proceeds to the company of approximately \$265,337,000 in April 2007; and

we extended our \$40,000,000 unsecured line of credit which was scheduled to mature in May 2007 to May 2008 and reduced pricing by 10 basis points.

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 available to common stockholders (NICS) is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations (FFO) and funds available for distribution (FAD); however, these supplemental measures are not defined by U.S. generally accepted accounting

Table of Contents

principles (U.S. GAAP). Please refer to the section entitled Non-GAAP Financial Measures for further discussion of FFO and FAD and for reconciliations of FFO and FAD to NICS. These earnings measures and their relative per share amounts are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends of our operating performance measures for the periods presented (in thousands, except per share data):

	Three Months Ended				
	March 31,	June 30,	September	December	March 31,
	2006	2006	30,	31,	2007
			2006	2006	
Net income (loss) available to common stockholders	\$ 19,645	\$ 22,668	\$ 21,480	\$ 17,494	\$ 23,356
Funds from operations	41,354	45,870	45,898	44,459	56,207
Funds available for distribution	49,975	47,071	48,032	46,809	53,825
Per share data (fully diluted):					
Net income (loss) available to common stockholders	\$ 0.34	\$ 0.37	\$ 0.34	\$ 0.27	\$ 0.32
Funds from operations	0.71	0.74	0.73	0.69	0.76
Funds available for distribution	0.85	0.76	0.76	0.72	0.73

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

	March	June 30,	September	December	March
	31,	2006	30,	31,	31,
	2006		2006	2006	2007
Asset mix:					
Real property	94%	94%	93%	95%	94%
Loans receivable	6%	6%	7%	5%	6%
Investment mix:					
Independent living/CCRCs	15%	15%	16%	13%	13%
Assisted living facilities	33%	33%	32%	25%	24%
Skilled nursing facilities	45%	45%	46%	34%	36%
Medical office buildings				22%	21%
Specialty care facilities	7%	7%	6%	6%	6%
Customer mix:					
Emeritus Corporation	12%	12%	11%	9%	8%
Brookdale Senior Living Inc.	10%	10%	9%	7%	7%

Edgar Filing: HEALTH CARE REIT INC /DE/ - Form 10-Q

Home Quality Management, Inc.			8%	6%	6%
Life Care Centers of America, Inc.	7%	8%	7%	6%	6%
Merrill Gardens L.L.C.	7%	7%	6%	4%	4%
Tara Cares, LLC.		6%			
Delta Health Group, Inc.	6%				
Remaining operators	58%	57%	59%	68%	69%
Geographic mix:					
Florida	14%	14%	15%	17%	16%
Texas	8%	8%	8%	11%	13%
Massachusetts	12%	11%	11%	8%	8%
California				7%	7%
Ohio	9%	9%	8%	6%	6%
North Carolina	7%	7%	6%		
Remaining states	50%	51%	52%	51%	50%

Table of Contents

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 investment grade ratings with Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization (EBITDA) which is discussed in further detail, and reconciled to net income, below in Non-GAAP Financial Measures. Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

	Three Months Ended				
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Debt to book capitalization ratio	52%	49%	51%	53%	54%
Debt to market capitalization ratio	38%	37%	36%	39%	40%
Interest coverage ratio	2.99x	3.16x	2.98x	2.75x	2.82x
Fixed charge coverage ratio	2.41x	2.52x	2.41x	2.23x	2.28x

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/A for the year ended December 31, 2006, under the headings Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of these risk factors.

Portfolio Update

Investment Properties. Payment coverages of the operators in our investment property portfolio continue to remain strong. Our overall payment coverage is at 1.94 times, which is consistent with the prior year. The table below reflects our recent historical trends of portfolio coverages. Coverage data reflects the 12 months ended for the periods presented. CBMF represents the ratio of facilities' earnings before interest, taxes, depreciation, amortization, rent and management fees to contractual rent or interest due us. CAMF represents the ratio of earnings before interest, taxes, depreciation, amortization, and rent (but after imputed management fees) to contractual rent or interest due us.

	December 31, 2004		December 31, 2005		December 31, 2006	
	CBMF	CAMF	CBMF	CAMF	CBMF	CAMF
Independent living/CCRCs (1)			1.45x	1.23x	1.39x	1.19x
Assisted living facilities	1.47x	1.25x	1.52x	1.30x	1.56x	1.35x
Skilled nursing facilities	2.15x	1.64x	2.21x	1.63x	2.19x	1.57x
Specialty care facilities	3.00x	2.37x	3.19x	2.60x	2.77x	2.21x
Weighted averages	1.84x	1.48x	1.94x	1.54x	1.94x	1.51x

- (1) As a result of our significant independent living/continuing care retirement community acquisitions in the fourth quarter of 2005, we began to separately disclose this facility classification in our portfolio reporting. We adopted the National Investment Center definitions and reclassified certain of our existing facilities to this classification.

Operating Properties. The primary performance measure for our operating properties is net operating income (NOI) as discussed below in Non-GAAP Financial Measures. For the three months ended March 31, 2007, our operating properties generated \$18,397,000 of net operating income which represents \$25,565,000 of rental income less \$7,168,000 of property operating expenses.

Table of Contents***Corporate Governance***

Maintaining investor confidence and trust has become increasingly important in today's business environment. Health Care REIT, Inc.'s 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. In March 2004, the Board of Directors adopted its Corporate Governance Guidelines. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on our Web site at www.hcreit.com and from us upon written request sent to the Senior Vice President Administration and Corporate Secretary, Health Care REIT, Inc., One SeaGate, Suite 1500, P.O. Box 1475, Toledo, Ohio 43603-1475.

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

Our primary sources of cash include rent and interest receipts, borrowings under unsecured lines 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 construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below.

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

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Cash and cash equivalents at beginning of period	\$ 36,216	\$ 36,237	\$ (21)	0%
Cash provided from (used in) operating activities	61,358	64,553	(3,195)	-5%
Cash provided from (used in) investing activities	(215,875)	(57,193)	(158,682)	277%
Cash provided from (used in) financing activities	149,594	(17,839)	167,433	n/a
Cash and cash equivalents at end of period	\$ 31,293	\$ 25,758	\$ 5,535	21%

Operating Activities. The change in net cash provided from operating activities is primarily attributable to an increase in net income and to changes in receivables/other assets and accruals/other liabilities. The increase in net income is discussed below in *Results of Operations*.

The following is a summary of our straight-line rent (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Gross straight-line rental income	\$ 4,231	\$ 2,400	\$ 1,831	76%
Cash receipts due to real property sales	0	(604)	604	-100%
Prepaid rent receipts	(2,078)	(9,706)	7,628	-79%
Rental income related to above/below market leases	460	0	460	n/a
Cash receipts less than (in excess of) rental income	\$ 2,613	\$ (7,910)	\$ 10,523	n/a

Gross straight-line rental income represents the non-cash difference between contractual cash rent due and the average rent recognized pursuant to Statement of Financial Accounting Standards No. 13, *Accounting for Leases* (SFAS 13), for leases with fixed rental escalators, net of collectibility 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 increase in gross straight-line rental income is primarily attributable to leases in our operating properties segment, assumed in connection with the Windrose merger on December 20, 2006. The decrease in prepaid rent receipts is primarily attributable to cash received in connection with the acquisition of Commonwealth Communities Holdings LLC by Kindred Healthcare, Inc. in February 2006 as discussed in our Annual Report on Form 10-K for the year ended December 31, 2005.

Table of Contents

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

	Three Months Ended			
	Mar. 31, 2007		Mar. 31, 2006	
	Facilities	Amount	Facilities	Amount
Real property acquisitions:				
Assisted living facilities	2	\$ 9,875	2	\$ 6,150
Skilled nursing facilities	7	103,300	8	71,020
Medical office buildings	1	7,999		
Land parcels				3,274
Total acquisitions	10	121,174	10	80,444
Less: Assumed debt				(25,049)
Cash disbursed for acquisitions		121,174		55,395
Construction in progress cash advances		36,162		31,912
Capital improvements to existing properties		4,339		2,687
Total cash invested in real property		161,675		89,994
Real property dispositions:				
Assisted living facilities	2	11,537	1	13,396
Skilled nursing facilities			1	1,081
Land parcels				50
Proceeds from real property sales	2	11,537	2	14,527
Net cash investments in real property	8	\$ 150,138	8	\$ 75,467
Advances on loans receivable:				
Investments in new loans		\$ 69,546		\$ 4,250
Draws on existing loans		10,881		1,074
Total investments in loans		80,427		5,324
Receipts on loans receivable:				
Loan payoffs		14,182		21,240
Principal payments on loans		3,747		2,854
Total principal receipts on loans		17,929		24,094
Net cash advances (receipts) on loans receivable		\$ 62,498		\$ (18,770)

Financing Activities. The changes in net cash provided from or used in financing activities are primarily attributable to changes related to our unsecured lines of credit arrangements and cash distributions to stockholders.

Edgar Filing: HEALTH CARE REIT INC /DE/ - Form 10-Q

For the three months ended March 31, 2007, we had a net increase of \$156,000,000 on our unsecured lines of credit arrangements as compared to a net increase of \$6,000,000 for the same period in 2006.

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 decrease in dividends is primarily attributable to a decrease in our common stock dividends due to the payment of prorated dividends of \$0.2991 in February 2007 and \$0.3409 in December 2006 in conjunction with the Windrose merger.

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

	Three Months Ended			
	Mar. 31, 2007		Mar. 31, 2006	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 0.2991	\$ 22,285	\$ 0.6200	\$ 36,323
Series D Preferred Stock	0.4922	1,969	0.4922	1,969
Series E Preferred Stock	0.3750	28	0.3750	28
Series F Preferred Stock	0.4766	3,336	0.4766	3,336
Series G Preferred Stock	0.4688	984		0
Totals		\$ 28,602		\$ 41,656

Table of Contents***Off-Balance Sheet Arrangements***

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide workers' compensation insurance to one of our tenants. Our obligation under the letter of credit matures in 2009. At March 31, 2007, our obligation under the letter of credit was \$2,450,000.

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on the general trend in interest rates at the applicable dates, our perception of the future volatility of interest rates and our relative levels of variable rate debt and variable rate investments. As of March 31, 2007, we participated in two interest rate swap agreements related to our long-term debt. Our interest rate swaps are discussed below in Contractual Obligations.

Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of March 31, 2007 (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		2007	2008-2009	2010-2011	Thereafter
Unsecured lines of credit arrangements (1)	\$ 740,000	\$ 40,000	\$ 700,000	\$ 0	\$ 0
Senior unsecured notes (2)	1,539,830	52,500	42,330		1,445,000
Secured debt (2)	376,506	17,449	85,530	62,289	211,238
Trust preferred liability (2)	51,000				51,000
Contractual interest obligations	1,107,270	124,907	269,884	218,404	494,075
Capital lease obligations	0				
Operating lease obligations	36,651	2,029	4,664	4,005	25,953
Purchase obligations	375,525	57,621	269,966	47,938	
Other long-term liabilities	0				
Total contractual obligations	\$ 4,226,782	\$ 294,506	\$ 1,372,374	\$ 332,636	\$ 2,227,266

(1) Unsecured lines of credit arrangements reflected at 100% capacity.

(2) 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, 2007, we had an unsecured credit arrangement with a consortium of twelve banks providing for a revolving line of credit (revolving credit) in the amount of \$700,000,000, which is scheduled to expire on July 26, 2009. 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 (6.175% at March 31, 2007). The applicable margin is based on our ratings with Moody's Investors Service and Standard & Poor's

Ratings Services and was 0.8% at March 31, 2007. In addition, we pay a facility fee annually to each bank based on the bank's commitment under the revolving credit facility. The facility fee depends on our ratings with Moody's Investors Service and Standard & Poor's Ratings Services and was 0.15% at March 31, 2007. We also pay an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. We have another unsecured line of credit arrangement with a bank for a total of \$40,000,000, which was scheduled to expire May 31, 2007. Borrowings under this line of credit are subject to interest at either the bank's prime rate of interest (8.25% at March 31, 2007) or 0.9% over LIBOR interest rate, at our option. Principal is due upon expiration of the agreement. Subsequent to March 31, 2007, we extended this agreement to May 30, 2008 and reduced the pricing to 0.8% over LIBOR interest rate. At March 31, 2007, we had \$381,000,000 outstanding under the unsecured lines of credit arrangements and estimated total contractual interest obligations of \$54,896,000. Contractual interest obligations are estimated based on the assumption that the balance of \$381,000,000 at March 31, 2007 is constant until maturity at interest rates in effect at March 31, 2007.

We have \$1,539,830,000 of senior unsecured notes principal outstanding with fixed annual interest rates ranging from 4.75% to 8.0%, payable semi-annually. Total contractual interest obligations on senior unsecured notes totaled \$874,893,000 at March 31, 2007. Additionally, we have mortgage loans with total outstanding principal of \$376,506,000, collateralized by owned properties, with fixed annual interest rates ranging from 4.89% to 8.5%, payable monthly. The carrying values of the properties securing the mortgage loans totaled \$740,658,000 at March 31, 2007. Total contractual interest obligations on mortgage loans totaled \$135,313,000 at March 31, 2007.

On May 6, 2004, we entered into two interest rate swap agreements (the "Swaps") for a total notional amount of \$100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of \$100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method to assess effectiveness. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2007, total contractual interest obligations were estimated to be \$42,168,000.

Table of Contents

At March 31, 2007, we had operating lease obligations of \$36,651,000 relating to ground leases at certain of our properties and office space leases.

Purchase obligations are comprised of unfunded construction commitments and contingent purchase obligations. At March 31, 2007, we had outstanding construction financings of \$169,782,000 for leased properties and were committed to providing additional financing of approximately \$339,893,000 to complete construction. At March 31, 2007, we had contingent purchase obligations totaling \$35,632,000. These contingent purchase obligations primarily relate to deferred acquisition fundings and capital improvements. Deferred acquisition fundings are contingent upon a tenant satisfying certain conditions in the lease. Upon funding, amounts due from the tenant are increased to reflect the additional investment in the property.

Capital Structure

As of March 31, 2007, we had stockholders' equity of \$2,008,384,000 and a total outstanding debt balance of \$2,352,321,000, which represents a debt to total book capitalization ratio of 54%. Our ratio of debt to market capitalization was 40% at March 31, 2007. For the three months ended March 31, 2007, our interest coverage ratio was 2.82 to 1.00. For the three months ended March 31, 2007, our fixed charge coverage ratio was 2.28 to 1.00. Also, at March 31, 2007, we had \$31,293,000 of cash and cash equivalents and \$359,000,000 of available borrowing capacity under our unsecured lines of credit arrangements.

Our debt agreements contain various covenants, restrictions and events of default. Among other things, these provisions 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, 2007, we were in compliance with all of the covenants under our debt agreements. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our unsecured lines of credit arrangements, the ratings on our senior unsecured notes are used to determine the fees and interest payable.

As of April 30, 2007, our senior unsecured notes were rated Baa2 (stable), BBB- (positive) and BBB- (stable) by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively. We plan to manage the company to maintain investment grade status with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the noted 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 12, 2006, 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, 2007, we had an effective registration statement on file in connection with our enhanced DRIP program under which we may issue up to 6,314,213 shares of common stock. As of April 30, 2007, 760,247 shares of common stock remained available for issuance under this registration statement. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our unsecured lines of credit arrangements.

Results of Operations

Net income available to common stockholders for the three months ended March 31, 2007 totaled \$23,356,000, or \$0.32 per diluted share, as compared with \$19,645,000, or \$0.34 per diluted share, for the same period in 2006. Net income available to common stockholders increased from the prior year primarily due to an increase in rental income offset by increases in interest expense, provisions for depreciation and amortization, property operating expenses and general and administrative expenses. These items are discussed in further detail below.

FFO for the three months ended March 31, 2007 totaled \$56,207,000, or \$0.76 per diluted share, as compared with \$41,354,000, or \$0.71 per diluted share, for the same period in 2006. FAD for the three months ended March 31, 2007 totaled \$53,825,000, or \$0.73 per diluted share, as compared to \$49,975,000, or \$0.85 per diluted share, for the same period in 2006. The increase in FFO is due primarily to an increase in rental income offset by increases in interest expense, property operating expenses and general and administrative expenses. The increase in FAD is primarily due to the items noted above for FFO and the change in net straight-line rental income. Please refer to the discussion of Non-GAAP Financial Measures below for further information regarding FFO and FAD and for reconciliations of FFO and FAD to NICS.

EBITDA for the three months ended March 31, 2007 totaled \$96,810,000, as compared with \$73,189,000 for the same period in 2006. Our interest coverage ratio was 2.82 times for the three months ended March 31, 2007 as compared with 2.99 times for the same period in 2006. Our fixed charge coverage ratio was 2.28 times for the three months ended March 31, 2007 as compared with 2.41 times for the same period in 2006. The increase in EBITDA is primarily due to the increase in rental income offset by increases in property operating expenses and general and administrative expenses. The decrease in our interest coverage ratio is primarily due to the increase in

Table of Contents

interest expense. The decrease in our fixed charge coverage ratio is primarily due to the increases in interest expense, preferred dividends and secured debt principal amortization payments. These items are discussed in further detail below. Please refer to the discussion of Non-GAAP Financial Measures below for further information regarding EBITDA and a reconciliation of EBITDA to net income.

Revenues were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Rental income	\$ 105,904	\$ 71,380	\$ 34,524	48%
Interest income	5,149	4,262	887	21%
Transaction fees and other income	1,592	366	1,226	335%
Totals	\$ 112,645	\$ 76,008	\$ 36,637	48%

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

Interest income increased from 2006 primarily due to an increase in the balance of outstanding loans.

Transaction fees and other income increased for the year primarily due to the receipt of \$950,000 from non-recurring fees.

Expenses were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Interest expense	\$ 31,922	\$ 23,523	\$ 8,399	36%
Property operating expenses	7,168	0	7,168	n/a
Depreciation and amortization	33,860	21,825	12,035	55%
General and administrative	9,793	5,976	3,817	64%
Loan expense	1,267	711	556	78%
Provision for loan losses	0	250	(250)	-100%
Totals	\$ 84,010	\$ 52,285	\$ 31,725	61%

The following is a summary of our interest expense (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Senior unsecured notes	\$ 23,671	\$ 19,574	\$ 4,097	21%
Secured debt	5,694	1,978	3,716	188%

Edgar Filing: HEALTH CARE REIT INC /DE/ - Form 10-Q

Unsecured lines of credit	4,041	2,873	1,168	41%
Subsidiary trust liability	921	0	921	n/a
Capitalized interest	(2,327)	(202)	(2,125)	1,052%
SWAP losses (savings)	(1)	15	(16)	n/a
Discontinued operations	(77)	(715)	638	-89%
Totals	\$ 31,922	\$ 23,523	\$ 8,399	36%

The increase in interest expense on senior unsecured notes is due to higher average borrowings offset by lower average interest rates. For the three months ended March 31, 2007, we had \$1,539,830,000 of senior unsecured notes principal outstanding with a

Table of Contents

weighted average interest rate of 6.159% compared to \$1,194,830,000 and 6.566% for the prior year. The changes from the prior year are due to the issuance of \$345,000,000 4.75% senior unsecured convertible notes in November 2006.

The change in interest expense on secured debt is due to the net effect and timing of assumptions, extinguishments and principal amortizations. The increased balance from the prior year is due to the assumption of \$248,844,000 of secured debt outstanding principal in connection with the Windrose merger in December 2006. The following is a summary of our secured debt principal activity (dollars in thousands):

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 378,400	6.406%	\$ 107,540	7.328%
Debt assumed			25,049	6.315%
Principal payments	(1,894)	6.507%	(643)	7.389%
Ending balance	\$ 376,506	6.347%	\$ 131,946	7.135%
Monthly averages	\$ 377,476	6.348%	\$ 113,482	7.272%

The change in interest expense on unsecured lines of credit arrangements is due primarily to the net effect and timing of average draws, paydowns and variable interest rate changes. The following is a summary of our unsecured lines of credit arrangements (dollars in thousands):

	Three Months Ended March 31,	
	2007	2006
Balance outstanding at quarter end	\$381,000	\$201,000
Maximum amount outstanding at any month end	\$381,000	\$201,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$243,650	\$184,367
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	6.63%	6.23%

We have a \$51,000,000 liability to a subsidiary trust issuing trust preferred securities that was assumed in the Windrose merger in December 2006. The trust preferred securities mature on March 30, 2036, are redeemable at our option beginning March 30, 2011, and require quarterly distributions of interest to the holders of the trust preferred securities. The trust preferred securities bear a fixed rate per annum equal to 7.22% through March 30, 2011, and a variable rate per annum equal to LIBOR plus 2.05% thereafter.

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 borrowings 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. Capitalized interest for the three months ended March 31, 2007 totaled \$2,327,000 as compared with \$202,000 for the same period in 2006.

On May 6, 2004, we entered into two interest rate swap agreements (the "Swaps") for a total notional amount of \$100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of \$100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method to assess effectiveness. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. For the three months ended March 31, 2007, we generated \$1,000 of savings related to our Swaps that was recorded as a

reduction of interest expense. For the three months ended March 31, 2006, we incurred \$15,000 of losses related to our Swaps that was recorded as an addition to interest expense.

Depreciation and amortization increased primarily as a result of additional investments in properties owned directly by us. See the discussion of investing activities in *Liquidity and Capital Resources* above for additional details. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

General and administrative expenses as a percentage of revenues (including revenues from discontinued operations) for the three months ended March 31, 2007, were 8.67% as compared with 7.94% for the same period in 2006. The increase from 2006 is primarily related to costs associated with our initiatives to attract and retain appropriate personnel to achieve our business objectives.

Table of Contents

Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt. The change in loan expense is primarily due to costs associated with the issuance of \$345,000,000 of senior unsecured convertible notes in November 2006 and costs related to the assumption of secured debt in connection with the Windrose merger in December 2006.

As a result of our quarterly evaluation, we concluded that the allowance for loan losses at December 31, 2006 remained appropriate as of March 31, 2007. The provision for loan losses is related to our critical accounting estimate for the allowance for loan losses and is discussed below in Critical Accounting Policies.

Other items were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2007	Mar. 31, 2006	\$	%
Minority interests	\$ (126)	\$ 0	(126)	n/a
Gain (loss) on sales of properties	977	1,553	(576)	-37%
Discontinued operations, net	187	(298)	485	n/a
Preferred dividends	(6,317)	(5,333)	(984)	18%
Totals	\$ (5,279)	\$ (4,078)	\$ (1,201)	29%

Minority interests relate to certain joint venture properties acquired in connection with the Windrose merger in December 2006. There were no similar investments in the prior year period.

One assisted living facility was held for sale as of March 31, 2007. We did not recognize an impairment loss on this asset as the fair value less estimated costs to sell exceeded our carrying value. During the three months ended March 31, 2007, we sold two assisted living facilities with carrying values of \$10,560,000 for a net gain of \$977,000. These properties generated \$187,000 of income after deducting depreciation and interest expense from rental revenue for the three months ended March 31, 2007. All properties sold subsequent to January 1, 2005 and held for sale at March 31, 2007 generated \$298,000 of losses after deducting depreciation and interest expense from rental revenue for the three months ended March 31, 2006. Please refer to Note G of our unaudited consolidated financial statements for further discussion.

The increase in preferred stock dividends is due to an increase in average outstanding preferred shares as a result of the issuance of 2,100,000 shares of 7.5% Series G Cumulative Convertible Preferred Stock in connection with the Windrose merger in December 2006.

Table of Contents

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

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. Additionally, restrictive covenants in our long-term debt arrangements contain financial ratios based on EBITDA. 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.

FFO, FAD and EBITDA are financial measures that 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, FFO and FAD are utilized by the Board of Directors to evaluate management. FFO, FAD and EBITDA do not 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, FFO, FAD and EBITDA, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies.

Net operating income (NOI) is used to evaluate the operating performance of certain real estate properties such as medical office buildings. We define NOI as rental revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments, interest expense and discontinued operations. We believe NOI provides investors relevant and useful information because it measures the operating performance of our medical office buildings 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 medical office buildings.

Table of Contents

The table below reflects the reconciliation of FFO to net income available 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. Amounts are in thousands except for per share data.

	Three Months Ended				
	March 31,	June 30,	September	December	March 31,
	2006	2006	30,	31,	2007
			2006	2006	
FFO Reconciliation:					
Net income (loss) available to common stockholders	\$ 19,645	\$ 22,668	\$ 21,480	\$ 17,494	\$ 23,356
Provision for depreciation	23,262	24,131	24,526	25,645	33,860
Loss (gain) on sales of properties	(1,553)	(929)	(108)	1,324	(977)
Minority interests	0	0	0	(4)	(32)
Funds from operations	\$41,354	\$45,870	\$ 45,898	\$44,459	\$56,207
Average common shares outstanding:					
Basic	58,178	61,548	62,524	64,277	73,224
Diluted	58,535	61,868	62,866	64,687	73,791
Per share data:					
Net income (loss) available to common stockholders					
Basic	\$ 0.34	\$ 0.37	\$ 0.34	\$ 0.27	\$ 0.32
Diluted	0.34	0.37	0.34	0.27	0.32
Funds from operations					
Basic	\$ 0.71	\$ 0.75	\$ 0.73	\$ 0.69	\$ 0.77
Diluted	0.71	0.74	0.73	0.69	0.76

The table below reflects the reconciliation of FAD to net income available 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. Amounts are in thousands except for per share data.

	Three Months Ended				
	March 31,	June 30,	September	December	March 31,
	2006	2006	30,	31,	2007
			2006	2006	
FAD Reconciliation:					
Net income (loss) available to common stockholders	\$ 19,645	\$ 22,668	\$ 21,480	\$ 17,494	\$ 23,356
Provision for depreciation	23,262	24,131	24,526	25,645	33,860
Loss (gain) on sales of properties	(1,553)	(929)	(108)	1,324	(977)
Gross straight-line rental income	(2,400)	(2,216)	(1,904)	(2,912)	(4,231)

Edgar Filing: HEALTH CARE REIT INC /DE/ - Form 10-Q

Prepaid/straight-line rent receipts	10,310	2,710	3,256	4,285	2,078
Rental income related to above/(below) market leases	0	0	0	(60)	(460)
Amortization of deferred loan expenses	711	707	782	1,056	1,267
Cap Ex, tenant improvements, lease commissions	0	0	0	(21)	(1,063)
Minority interests	0	0	0	(2)	(5)
Funds available for distribution	\$49,975	\$47,071	\$48,032	\$46,809	\$53,825
Average common shares outstanding:					
Basic	58,178	61,548	62,524	64,277	73,224
Diluted	58,535	61,868	62,866	64,687	73,791
Per share data:					
Net income (loss) available to common stockholders					
Basic	\$ 0.34	\$ 0.37	\$ 0.34	\$ 0.27	\$ 0.32
Diluted	0.34	0.37	0.34	0.27	0.32
Funds available for distribution					
Basic	\$ 0.86	\$ 0.76	\$ 0.77	\$ 0.73	\$ 0.74
Diluted	0.85	0.76	0.76	0.72	0.73

Table of Contents

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 includes discontinued operations. Tax expense represents income-based taxes. Amortization represents the amortization of deferred loan expenses. Adjusted EBITDA represents EBITDA as adjusted below for items pursuant to covenant provisions of our unsecured lines of credit arrangements. Dollars are in thousands.

	Three Months Ended				
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
EBITDA Reconciliation:					
Net income	\$24,978	\$28,001	\$26,813	\$22,958	\$29,673
Interest expense	24,238	23,087	24,274	25,235	31,999
Tax expense	0	12	70	0	11
Provision for depreciation	23,262	24,131	24,526	25,645	33,860
Amortization of deferred loan expenses	711	707	782	1,056	1,267
EBITDA	73,189	75,938	76,465	74,894	96,810
Stock-based compensation expense	2,514	838	839	2,789	3,177
Provision for loan losses	250	250	250	250	0
Adjusted EBITDA	\$75,953	\$77,026	\$77,554	\$77,933	\$99,987
Interest Coverage Ratio:					
Interest expense	\$24,238	\$23,087	\$24,274	\$25,235	\$31,999
Capitalized interest	202	908	1,384	1,976	2,327
Total interest	24,440	23,995	25,658	27,211	34,326
EBITDA	\$73,189	\$75,938	\$76,465	\$74,894	\$96,810
Interest coverage ratio	2.99x	3.16x	2.98x	2.75x	2.82x
Adjusted EBITDA	\$75,953	\$77,026	\$77,554	\$77,933	\$99,987
Interest coverage ratio adjusted	3.11x	3.21x	3.02x	2.86x	2.91x
Fixed Charge Coverage Ratio:					
Total interest	\$24,440	\$23,995	\$25,658	\$27,211	\$34,326
Secured debt principal amortization	643	768	773	849	1,894
Preferred dividends	5,333	5,333	5,333	5,464	6,317
Total fixed charges	30,416	30,096	31,764	33,524	42,537
EBITDA	\$73,189	\$75,938	\$76,465	\$74,894	\$96,810
Fixed charge coverage ratio	2.41x	2.52x	2.41x	2.23x	2.28x

EBITDA adjusted	\$75,953	\$77,026	\$ 77,554	\$77,933	\$99,987
Fixed charge coverage ratio adjusted	2.50x	2.56x	2.44x	2.32x	2.35x
		26			

Table of Contents**Critical Accounting Policies**

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

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

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

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure presented below relating to them. Management believes the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to our Annual Report on Form 10-K/A for the year ended December 31, 2006 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2007.

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

Nature of Critical Accounting Estimate	Assumptions/Approach Used
---	--------------------------------------

Allowance for Loan Losses

We maintain an allowance for loan losses in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended, and SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. The allowance for loan losses is maintained at a level believed adequate to absorb potential losses in our loans receivable. The determination of the allowance is based on a quarterly evaluation of all outstanding loans. If this evaluation indicates that there is a greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due as scheduled according to the contractual terms of the original loan agreement. Consistent with this definition, all loans on non-accrual are deemed impaired. To the extent circumstances improve and the risk of collectibility is diminished, we will return these loans to full accrual status.

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

As a result of our quarterly evaluation, we concluded that the allowance for loan losses at December 31, 2006 remained appropriate as of March 31, 2007, resulting in an allowance for loan losses of \$7,406,000 relating to loans with outstanding balances of \$98,399,000. Also at March 31, 2007, we had a loan with an outstanding balance of \$799,000 on non-accrual status.

Table of Contents

**Nature of Critical
Accounting Estimate**

**Assumptions/Approach
Used**

Depreciation and Amortization

Substantially all of the properties owned by us are leased under operating leases and are recorded at cost. The cost of our real property is allocated to land, buildings, improvements and intangibles in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. The allocation of the acquisition costs of properties is based on appraisals commissioned from independent real estate appraisal firms.

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

For the three months ended March 31, 2007, we recorded \$27,155,000, \$4,128,000 and \$2,577,000 as provisions for depreciation and amortization relating to buildings, improvements and intangibles, respectively, including amounts reclassified as discontinued operations. The average useful life of our buildings, improvements and intangibles was 32.3 years, 11.7 years and 5.0 years, respectively, for the three months ended March 31, 2007.

Impairment of Long-Lived Assets

We review our long-lived assets for potential impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. An impairment charge must be recognized when the carrying value of a long-lived asset is not recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If it is determined that a permanent impairment of a long-lived asset has occurred, the carrying value of the asset is reduced to its fair value and an impairment charge is recognized for the difference between the carrying value and the fair value.

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

We did not record any impairment charges for the three months ended March 31, 2007.

Fair Value of Derivative Instruments

The valuation of derivative instruments is accounted for in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS133), as

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are estimated by a third party consultant, which utilizes pricing

amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS133, as amended, requires companies to record derivatives at fair market value on the balance sheet as assets or liabilities.

models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates which may change in the future. At March 31, 2007, we participated in two interest rate swap agreements related to our long-term debt. At March 31, 2007, the swaps were reported at their fair value as a \$1,230,000 other asset. For the three months ended March 31, 2007, we generated \$1,000 of savings related to our swaps that was recorded as a reduction to interest expense.

28

Table of Contents

**Nature of Critical
Accounting Estimate**

**Assumptions/Approach
Used**

Revenue Recognition

Revenue is recorded in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases, and SEC Staff Accounting Bulletin No. 104, Revenue Recognition in Financial Statements, as amended (SAB104). SAB104 requires that revenue be recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectibility. If the collectibility of revenue is determined incorrectly, the amount and timing of our reported revenue could be significantly affected. Interest income on loans is recognized as earned based upon the principal amount outstanding subject to an evaluation of collectibility risk.

Substantially all of our operating leases contain either fixed or contingent escalating rent structure. Leases with fixed annual rental escalators are generally recognized on a straight- line basis over the initial lease period, subject to a collectibility assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period.

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

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

For the three months ended March 31, 2007, we recognized \$5,149,000 of interest income and \$106,168,000 of rental income, including discontinued operations. Cash receipts on leases with deferred revenue provisions were \$2,078,000 as compared to gross straight-line rental income recognized of \$4,231,000 for the three months ended March 31, 2007. At March 31, 2007, our straight-line receivable balance was \$55,374,000, net of reserves totaling \$4,619,000. Also at March 31, 2007, we had a loan with an outstanding balance of \$799,000 on non-accrual status.

Forward-Looking Statements and Risk Factors

This Quarterly Report on Form 10-Q may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements concern and are based upon, among other things, the possible expansion of the company s portfolio; the sale of properties; the performance of its operators/tenants and properties; its occupancy rates; its ability to acquire or develop properties; its ability to manage properties; its ability to enter into agreements with new viable tenants for vacant space or for properties that the company takes back from financially troubled tenants, if any; its ability to make distributions; its policies and plans regarding investments, financings and other matters; its tax status as a real estate investment trust; its ability to appropriately balance the use of debt and equity; its ability to access capital markets or other sources of funds; its critical accounting policies; and its ability to meet its earnings guidance. When the company uses words such as may, will, intend, should, believe, expect, anticipate, project, estimate or similar expressions, it is making forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The company s expected results may not be achieved, and actual results may differ materially from expectations. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including prevailing interest rates; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies and operators /tenants difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care and senior housing 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 a profitable result; the failure of closings to occur as and when anticipated; acts of God affecting the company's properties; the company's ability to timely reinvest sale proceeds at similar rates to assets sold; the company's ability to re-lease space at similar rates as vacancies occur; operator/tenant bankruptcies or insolvencies; government regulations affecting Medicare and Medicaid reimbursement rates; liability or contract claims by or against operators and tenants; unanticipated difficulties and/or expenditures relating to future acquisitions and the integration of multi-property acquisitions; environmental laws affecting the company's properties; changes in rules or practices governing the company's financial reporting; and legal and operational matters, including real estate investment trust qualification and key management personnel recruitment and retention. Other important factors are identified in our Annual Report on Form 10-K/A for the year ended December 31, 2006, including factors identified under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, we assume no obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ from those projected in any forward-looking statements.

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

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

We historically borrow on our unsecured lines of credit arrangements to acquire, construct or make loans relating to health care and senior housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under the unsecured lines 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. At March 31, 2007, we had \$1,539,830,000 of outstanding principal balances related to our senior unsecured notes. A 1% increase in interest rates would result in a decrease in fair value of our senior unsecured notes by approximately \$70,366,000 at March 31, 2007. At March 31, 2006, we had \$1,194,830,000 of outstanding principal balances related to our senior unsecured notes. A 1% increase in interest rates would result in a decrease in fair value of our senior unsecured notes by approximately \$35,175,000 at March 31, 2006. At March 31, 2007, we had \$362,027,000 of outstanding principal balances related to our fixed rate secured debt. A 1% increase in interest rates would result in a decrease in fair value of our fixed rate secured debt by approximately \$16,584,000 at March 31, 2007. At March 31, 2006, we had \$131,946,000 of outstanding principal balances related to our fixed rate secured debt. A 1% increase in interest rates would result in a decrease in fair value of our fixed rate secured debt by approximately \$5,933,000 at March 31, 2006. At March 31, 2007, we had \$51,000,000 of outstanding principal balances related to our liability to a subsidiary trust issuing preferred securities. A 1% increase in interest rates would result in a decrease in fair value of this liability by approximately \$1,794,000 at March 31, 2007. 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.

On May 6, 2004, we entered into two interest rate swap agreements (the Swaps) for a total notional amount of \$100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of \$100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2007, the Swaps were reported at their fair value as a \$1,230,000 other asset (\$651,000 other liability at March 31, 2006). A 1% increase in interest rates would result in a decrease in fair value of our Swaps by approximately \$5,427,000 at March 31, 2007 (\$6,328,000 at March 31, 2006). Assuming no changes in the notional amount of \$100,000,000 of our Swaps, a 1% increase in interest rates would result in increased annual interest expense of \$1,000,000.

Our variable rate debt, including our unsecured lines of credit arrangements, is reflected at fair value. At March 31, 2007, we had \$381,000,000 outstanding related to our variable rate debt and assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of \$3,810,000. At March 31, 2006, we had \$201,000,000 outstanding related to our variable rate debt and assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of \$2,010,000.

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

Table of Contents

Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the Securities and Exchange Commission (SEC) under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. During the quarter ended March 31, 2007, we implemented JD Edwards EnterpriseOne, a new enterprise management reporting system, which among other functions, is used to process and accumulate financial data principally supporting rent and interest income, accounts receivable, fixed assets, accounts payable and general ledger transactions. The new system replaces several separate software systems and consolidates the aforementioned functions into a more efficient system which is easier to maintain. We believe this system consolidation represents a material change to our internal control over financial reporting. No other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the period 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/A for the year ended December 31, 2006.

Item 5. Other Information

Entry into a Material Definitive Agreement

On May 7, 2007, the company and certain of its subsidiaries entered into a new \$40,000,000 unsecured line of credit arrangement with Fifth Third Bank, which expires on May 31, 2008. Borrowings under this line of credit are subject to interest at either the lender's prime rate of interest or 0.8% over LIBOR interest rate, at our option. Principal is due upon expiration of the agreement. The agreement includes customary representations and warranties by the company and certain of its subsidiaries and the borrowings under the agreement are subject to acceleration upon the occurrence of certain events of default.

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under this line of credit. The above description is qualified in its entirety by reference to the Credit Agreement by and among the company and certain of its subsidiaries and Fifth Third Bank, dated as of May 31, 2007, which is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q.

Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

See the disclosure above regarding the new \$40,000,000 unsecured line of credit.

Item 6. Exhibits

- 10.1 Third Amended and Restated Employment Agreement, dated January 22, 2007, by and between Health Care REIT, Inc. and George L. Chapman (filed with the SEC as Exhibit 10.1 to Health Care REIT, Inc.'s Form 8-K filed January 25, 2007, and incorporated herein by reference thereto).
- 10.2 Restricted Stock Agreement, dated January 22, 2007, by and between Health Care REIT, Inc. and Raymond W. Braun (filed with the SEC as Exhibit 10.2 to Health Care REIT, Inc.'s Form 8-K filed January 25, 2007, and incorporated herein by reference thereto).
- 10.3 Credit Agreement by and among Health Care REIT, Inc. and certain of its subsidiaries and Fifth Third Bank, dated as of May 31, 2007.

10.4 Stock Option Agreement, dated December 20, 2006, between Health Care REIT, Inc. and Daniel R. Loftus.

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.

Table of Contents

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 thereunto duly authorized.

HEALTH CARE REIT, INC.

Date: May 10, 2007

By: /s/ George L. Chapman

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

Date: May 10, 2007

By: /s/ Scott A. Estes

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

Date: May 10, 2007

By: /s/ Paul D. Nungester, Jr.

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