HEALTH CARE REIT INC /DE/
Form 10-Q
November 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2012

or

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

Commission File number 1-8923

HEALTH CARE REIT, INC.

(Exact name of registrant as specified in its charter)

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

(419) 247-2800

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of October 31, 2012, the registrant had 259,682,359 shares of common stock outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED BALANCE SHEETS

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	September 30, 2012 (Unaudited)	December 31, 2011 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned:		
Land and land improvements	$ 1,268,757	$ 1,116,756
Buildings and improvements	14,766,557	13,073,747
Acquired lease intangibles	572,765	428,199
Real property held for sale, net of accumulated depreciation	153,458	36,115
Construction in progress	219,705	189,502
Gross real property owned	16,981,242	14,844,319
Less accumulated depreciation and amortization	(1,480,293)	(1,194,476)
Net real property owned	15,500,949	13,649,843
Real estate loans receivable:		
Real estate loans receivable	284,908	292,507
Less allowance for losses on loans receivable	-	-
Net real estate loans receivable	284,908	292,507
Net real estate investments	15,785,857	13,942,350
Other assets:		
Equity investments	456,552	241,722
Goodwill	68,321	68,321
Deferred loan expenses	57,539	58,584
Cash and cash equivalents	1,382,252	163,482
Restricted cash	140,404	69,620
Receivables and other assets	391,350	380,527
Total other assets	2,496,418	982,256
Total assets	$ 18,282,275	$ 14,924,606
Liabilities and equity		
Liabilities:		
Borrowings under unsecured line of credit arrangement	$ -	$ 610,000
Senior unsecured notes	4,921,712	4,434,107
Secured debt	2,314,717	2,112,649
Capital lease obligations	82,596	83,996
Accrued expenses and other liabilities	405,798	371,557
Total liabilities	7,724,823	7,612,309

Redeemable noncontrolling interests		35,047		33,650
Equity:				
Preferred stock		1,022,917		1,010,417
Common stock		259,522		192,299
Capital in excess of par value		10,502,057		7,019,714
Treasury stock		(17,531)		(13,535)
Cumulative net income		2,077,641		1,893,806
Cumulative dividends		(3,485,592)		(2,972,129)
Accumulated other comprehensive income (loss)		(10,432)		(11,928)
Other equity		7,445		6,120
Total Health Care REIT, Inc. stockholders' equity		10,356,027		7,124,764
Noncontrolling interests		166,378		153,883
Total equity		10,522,405		7,278,647
Total liabilities and equity	$	18,282,275	$	14,924,606

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

See notes to unaudited consolidated financial statements

3

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands, except per share data)			
Revenues:				
Rental income	$ 290,225	$ 235,938	$ 826,627	$ 615,219
Resident fees and services	174,464	125,125	498,295	319,559
Interest income	8,111	7,858	24,131	32,433
Other income	1,339	1,809	4,505	9,974
Total revenues	474,139	370,730	1,353,558	977,185
Expenses:				
Interest expense	94,580	84,429	280,058	220,527
Property operating expenses	144,479	103,127	409,606	266,081
Depreciation and amortization	132,150	111,582	387,053	286,623
General and administrative	23,679	19,735	77,302	57,009
Transaction costs	8,264	6,739	42,535	56,542
Loss (gain) on derivatives, net	409	-	(1,712)	-
Loss (gain) on extinguishment of debt, net	215	-	791	-
Provision for loan losses	27,008	132	27,008	547
Total expenses	430,784	325,744	1,222,641	887,329
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	43,355	44,986	130,917	89,856
Income tax (expense) benefit	(836)	(223)	(3,754)	(563)
Income from unconsolidated entities	(739)	1,642	2,250	4,156
Income (loss) from continuing operations	41,780	46,405	129,413	93,449
Discontinued operations:				
Gain (loss) on sales of properties, net	12,827	185	46,046	56,565
Impairment of assets	(6,952)	-	(6,952)	(202)
Income (loss) from discontinued operations, net	5,851	5,763	19,329	20,561
Discontinued operations, net	11,726	5,948	58,423	76,924
Net income	53,506	52,353	187,836	170,373
Less: Preferred stock dividends	16,602	17,234	52,527	43,268
Less: Preferred stock redemption charge	-	-	6,242	-
Less: Net income (loss) attributable to noncontrolling interests[(1)]	(365)	(1,488)	(2,241)	(2,721)
Net income (loss) attributable to common stockholders	$ 37,269	$ 36,607	$ 131,308	$ 129,826

Average number of common shares outstanding:								
Basic		224,391		177,272		212,592		169,636
Diluted		226,258		177,849		214,075		170,301
Earnings per share:								
Basic:								
Income (loss) from continuing operations attributable to common stockholders	$	0.11	$	0.17	$	0.34	$	0.31
Discontinued operations, net		0.05		0.03		0.27		0.45
Net income (loss) attributable to common stockholders*	$	0.17	$	0.21	$	0.62	$	0.77
Diluted:								
Income (loss) from continuing operations attributable to common stockholders	$	0.11	$	0.17	$	0.34	$	0.31
Discontinued operations, net		0.05		0.03		0.27		0.45
Net income (loss) attributable to common stockholders*	$	0.16	$	0.21	$	0.61	$	0.76
Dividends declared and paid per common share	$	0.74	$	0.715	$	2.22	$	2.12
Total comprehensive income (loss) attributable to stockholders	$	56,664	$	52,144	$	189,332	$	171,118

* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(in thousands)

	Nine Months Ended September 30, 2012									
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	$ 1,010,417	$ 192,299	$ 7,019,714	$ (13,535)	$ 1,893,806	$ (2,972,129)	$ (11,928)	$ 6,120	$ 153,883	$ 7,278,647
Comprehensive income:										
Net income (loss)					190,077				(1,272)	188,805
Other comprehensive income							1,496			1,496
Total comprehensive income										190,301
Contributions by noncontrolling interests			80						26,671	26,751
Distributions to noncontrolling interests			(1,609)						(12,904)	(14,513)
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans,		1,784	102,238	(3,996)				(1,046)		98,980

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
net of forfeitures										
Proceeds from issuance of common stock		64,400	3,383,008							3,447,408
Proceeds from issuance of preferred stock	287,500		(9,813)							277,687
Equity component of convertible debt		1,039	2,237							3,276
Redemption of preferred stock	(275,000)		6,202		(6,242)					(275,040)
Option compensation expense								2,371		2,371
Cash dividends paid:										
Common stock cash dividends						(460,936)				(460,936)
Preferred stock cash dividends						(52,527)				(52,527)
Balances at end of period	$ 1,022,917	$ 259,522	$ 10,502,057	$ (17,531)	$ 2,077,641	$ (3,485,592)	$ (10,432)	$ 7,445	$ 166,378	$ 10,522,405

Nine Months Ended September 30, 2011

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
	$ 291,667	$ 147,155	$ 4,932,468	$ (11,352)	$ 1,676,196	$ (2,427,881)	$ (11,099)	$ 5,697	$ 130,249	$ 4,733,100

Balances at beginning of period									
Comprehensive income:									
Net income (loss)					173,094			(2,303)	170,791
Other comprehensive income						745			745
Total comprehensive income									171,536
Contributions by noncontrolling interests			6,647					22,695	29,342
Distributions to noncontrolling interests								(36,268)	(36,268)
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		2,124	102,937	(2,183)			(1,046)		101,832
Proceeds from issuance of common stock		29,493	1,364,972						1,394,465
Proceeds from issuance of	718,750		(22,313)						696,437

preferred stock										
Option compensation expense								1,641		1,641
Cash dividends paid:										
Common stock cash dividends						(355,651)				(355,651)
Preferred stock cash dividends						(43,268)				(43,268)
Balances at end of period	$ 1,010,417	$ 178,772	$ 6,384,711	$ (13,535)	$ 1,849,290	$ (2,826,800)	$ (10,354)	$ 6,292	$ 114,373	$ 6,693,166

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	Nine Months Ended September 30,	
	2012	2011
Operating activities	(In thousands)	
Net income	$ 187,836	$ 170,373
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	393,243	301,461
Other amortization expenses	11,702	12,024
Provision for loan losses	27,008	547
Impairment of assets	6,952	202
Stock-based compensation expense	16,229	9,041
Loss (gain) on derivatives, net	(1,712)	-
Loss (gain) on extinguishment of debt, net	791	-
Income from unconsolidated entities	(2,250)	(4,156)
Rental income in excess of cash received	(32,069)	(19,596)
Amortization related to above (below) market leases, net	767	(1,588)
Loss (gain) on sales of properties, net	(46,046)	(56,565)
Distributions by unconsolidated entities	3,920	-
Increase (decrease) in accrued expenses and other liabilities	16,417	20,781
Decrease (increase) in receivables and other assets	(19,318)	(14,891)
Net cash provided from (used in) operating activities	563,470	417,633
Investing activities		
Investment in real property, net of cash acquired	(2,119,796)	(4,030,444)
Capitalized interest	(7,113)	(10,090)
Investment in real estate loans receivable	(35,894)	(36,504)
Other investments, net of payments	26,752	(6,526)
Principal collected on real estate loans receivable	16,577	149,019
Contributions to unconsolidated entities	(227,735)	(779)
Distributions by unconsolidated entities	12,592	13,260
Proceeds from (payments on) derivatives	4,435	-
Decrease (increase) in restricted cash	(69,809)	27,844
Proceeds from sales of real property	302,377	221,585
Net cash provided from (used in) investing activities	(2,097,614)	(3,672,635)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	(610,000)	90,000
Proceeds from issuance of senior unsecured notes	842,323	1,381,086
Payments to extinguish senior unsecured notes	(370,524)	-
Net proceeds from the issuance of secured debt	145,713	60,470
Payments on secured debt	(272,399)	(20,285)

Net proceeds from the issuance of common stock		3,536,232		1,490,681
Net proceeds from the issuance of preferred stock		277,687		696,437
Redemption of preferred stock		(275,000)		-
Decrease (increase) in deferred loan expenses		(5,119)		(25,994)
Contributions by noncontrolling interests(1)		12,106		9,655
Distributions to noncontrolling interests(1)		(15,283)		(21,910)
Cash distributions to stockholders		(513,463)		(398,919)
Other financing activities		641		(1,113)
Net cash provided from (used in) financing activities		2,752,914		3,260,108
Increase (decrease) in cash and cash equivalents		1,218,770		5,106
Cash and cash equivalents at beginning of period		163,482		131,570
Cash and cash equivalents at end of period	$	1,382,252	$	136,676
Supplemental cash flow information:				
Interest paid	$	275,246	$	203,748
Income taxes paid		3,012		320

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

6

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Health Care REIT, Inc., an S&P 500 company with headquarters in Toledo, Ohio, is an equity real estate investment trust ("REIT") that invests in seniors housing and health care real estate. Our full service platform also offers property management and development services to our customers. As of September 30, 2012, our broadly diversified portfolio consisted of 1,030 properties in 46 states, the United Kingdom and Canada. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

2. Accounting Policies and Related Matters

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2012 are not necessarily an indication of the results that may be expected for the year ending December 31, 2012. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by our Current Report on Form 8-K filed on August 6, 2012.

New Accounting Standards

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

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

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Real Property Acquisition and Development

Seniors Housing Triple-net Activity

During the nine months ended September 30, 2012, we completed the acquisition of 49 seniors housing triple-net properties. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with our accounting policies. Also during the three months ended March 31, 2012, we finalized our purchase price allocation of the previously acquired Genesis HealthCare Corporation real estate assets. There were no material changes in the Genesis purchase accounting allocation from those previously disclosed in Note 3 to our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by our Current Report on Form 8-K filed on August 6, 2012. The following summarizes our purchase price allocations and other seniors housing triple-net real property investment activity for the periods presented (in thousands):

	Nine Months Ended			
	September 30, 2012[1]		September 30, 2011	
	Amount		Amount	
Land and land improvements	$	79,325	$	210,956
Buildings and improvements		935,036		2,991,317
Total assets acquired[2]		1,014,361		3,202,273
Assumed debt		(86,186)		(93,425)
Accrued expenses and other liabilities		(3,340)		(75,144)
Total liabilities assumed		(89,526)		(168,569)
Capital in excess of par		1,024		-
Noncontrolling interest		(16,826)		-
Non-cash acquisition related activity		(310)		-
Cash disbursed for acquisitions		908,723		3,033,704
Construction in progress additions		131,579		121,382
Less: Capitalized interest		(4,228)		(4,077)
Cash disbursed for construction in progress		127,351		117,305
Capital improvements to existing properties		48,450		16,453
Total cash invested in real property, net of cash acquired	$	1,084,524	$	3,167,462

(1) Includes acquisitions with an aggregate purchase price of $777,916,000 for which the allocation of the purchase price consideration is preliminary and subject to change.
(2) Excludes $2,031,000 of cash acquired during the nine months ended September 30, 2012.

8

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Seniors Housing Operating Activity

Under the provisions of the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”), for taxable years beginning after July 30, 2008, we may lease “qualified health care properties” on an arm’s-length basis to our taxable REIT subsidiary (“TRS”) if the property is operated on behalf of such subsidiary by a person who qualifies as an eligible independent contractor (“EIK”). A “qualified health care property” includes real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients. The “qualified health care properties” are operated by an EIK under a management agreement. The lease agreement required under RIDEA between us and our TRS is eliminated for accounting purposes in consolidation. All of our seniors housing operating properties are structured under RIDEA.

During the nine months ended September 30, 2012, we completed the acquisition of 53 seniors housing operating properties. Certain of our subsidiaries’ functional currencies are the local currencies of their respective countries. We translate the results of operations of our foreign subsidiaries into U.S. dollars using average rates of exchange in effect during the period, and we translate balance sheet accounts using exchange rates in effect at the end of the period. We record resulting currency translation adjustments in accumulated other comprehensive income, a component of stockholders’ equity, on our balance sheet. The total purchase price for the properties acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with our accounting policies. The following is a summary of our seniors housing operating real property investment activity for the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2012(2) Amount	September 30, 2011 Amount
Land and land improvements	$ 46,391	$ 71,610
Building and improvements	450,255	968,727
Acquired lease intangibles	39,875	88,285
Restricted cash	-	8,186
Receivables and other assets	2,247	18,415
Total assets acquired(1)	538,768	1,155,223
Assumed debt	(8,684)	(585,656)
Accrued expenses and other liabilities	(5,480)	(39,044)
Total liabilities assumed	(14,164)	(624,700)
Capital in excess of par	-	(6,017)
Noncontrolling interests	(2,054)	(27,560)
Non-cash acquisition related activity	-	(27,298)
Cash disbursed for acquisitions	522,550	469,648
Capital improvements to existing properties	13,325	14,847
Total cash invested in real property, net of cash acquired	$ 535,875	$ 484,495

(1) Excludes $4,369,000 and $34,342,000 of cash acquired during the nine months ended September 30, 2012 and 2011, respectively.
(2) Includes acquisitions with an aggregate purchase price of $330,013,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Medical Facilities Activity

During the nine months ended September 30, 2012, we acquired 22 medical office buildings, one hospital, and one parcel of land. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with our accounting policies. The following is a summary of our medical facilities real property investment activity for the periods presented (in thousands):

	Nine Months Ended	
	September 30, 2012(2) Amount	September 30, 2011 Amount
Land and land improvements	$ 53,493	$ 7,711
Buildings and improvements	487,255	303,848
Acquired lease intangibles	93,392	1,126
Restricted cash	975	-
Receivables and other assets	4,311	-
Total assets acquired	639,426	312,685
Assumed debt	(238,589)	(48,801)
Accrued expenses and other liabilities	(18,075)	(568)
Total liabilities assumed	(256,664)	(49,369)
Non-controlling interests	-	(5,853)
Non-cash acquisition activity	(880)	-
Cash disbursed for acquisitions	381,882	257,463
Construction in progress additions:	94,462	138,898
Less: Capitalized interest	(2,885)	(6,013)
Accruals(1)	(4,567)	(33,451)
Cash disbursed for construction in progress	87,010	99,434
Capital improvements to existing properties	30,505	21,590
Total cash invested in real property	$ 499,397	$ 378,487

(1) Represents non-cash accruals for amounts to be paid in future periods relating to properties that converted in the periods noted above.
(2) Includes acquisitions with an aggregate purchase price of $486,014,000 for which the allocation of the purchase price consideration is preliminary and subject to change.

Development Conversions

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

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Development projects:		
Seniors housing triple-net	$ 84,271	$ 39,462
Medical facilities	111,327	325,562
Total development projects	195,598	365,024
Expansion projects	240	43,793
Total construction in progress conversions	$ 195,838	$ 408,817

Transaction Costs

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

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Real Estate Intangibles

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

		September 30, 2012	December 31, 2011
Assets:			
	In place lease intangibles	$ 447,833	$ 332,645
	Above market tenant leases	52,210	35,973
	Below market ground leases	60,771	51,316
	Lease commissions	11,951	8,265
	Gross historical cost	572,765	428,199
	Accumulated amortization	(230,217)	(148,380)
	Net book value	$ 342,548	$ 279,819
	Weighted-average amortization period in years	19.6	17.0
Liabilities:			
	Below market tenant leases	$ 72,442	$ 67,284
	Above market ground leases	8,955	5,020
	Gross historical cost	81,397	72,304
	Accumulated amortization	(26,010)	(21,387)
	Net book value	$ 55,387	$ 50,917
	Weighted-average amortization period in years	14.5	12.3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Rental income related to above/below market tenant leases, net	$ (972)	$ 1,118	$ 452	$ 2,439
	(555)	(315)	(1,219)	(851)

Property operating expenses related to above/below market ground leases, net				
Depreciation and amortization related to in place lease intangibles and lease commissions	(22,271)	(28,263)	(78,114)	(69,804)

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

	Assets	Liabilities
2012	$ 51,651	$ 1,742
2013	38,021	6,534
2014	32,294	6,010
2015	22,877	5,014
2016	24,184	4,668
Thereafter	173,521	31,419
Totals	$ 342,548	$ 55,387

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Dispositions, Assets Held for Sale and Discontinued Operations

During the nine months ended September 30, 2012, we sold 42 properties for net gains of $46,046,000. Of our total sale proceeds, $152,495,000 was deposited in an Internal Revenue Code Section 1031 exchange escrow account with a qualified intermediary and, during the nine months ended September 30, 2012, we used $84,243,000 of the deposited proceeds for acquisitions. At September 30, 2012, we had 31 seniors housing facilities that satisfied the requirements for held for sale treatment and such properties were properly recorded at the lesser of their estimated fair value less costs to sell or carrying value. During the nine months ended September 30, 2012, we recorded an impairment charge of $6,952,000 related to five held for sale seniors housing triple-net facilities to adjust the carrying values to estimated fair values less cost to sell based on current sales price expectations. The following is a summary of our real property disposition activity for the periods presented (in thousands):

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
Real property dispositions:				
Seniors housing triple-net	$	149,984	$	129,725
Medical facilities		106,347		35,295
Total dispositions		256,331		165,020
Add: Gain (loss) on sales of real property, net		46,046		56,565
Proceeds from real property sales	$	302,377	$	221,585

We have reclassified the income and expenses attributable to all properties sold prior to and held for sale at September 30, 2012 to discontinued operations. Expenses include an allocation of interest expense based on property carrying values and our weighted average cost of debt. The following illustrates the reclassification impact as a result of classifying properties as discontinued operations for the periods presented (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Revenues:								
Rental income	$	8,441	$	14,147	$	33,287	$	51,117
Expenses:								
Interest expense		1,663		3,382		6,669		11,387
Property operating expenses		219		944		1,099		4,331
Provision for depreciation		708		4,058		6,190		14,838
Income (loss) from discontinued operations, net	$	5,851	$	5,763	$	19,329	$	20,561

6. Real Estate Loans Receivable

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

	Nine Months Ended					
	September 30, 2012			September 30, 2011		
	Seniors Housing Triple-net	Medical Facilities	Totals	Seniors Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	$ 1,154	$ -	$ 1,154	$ 13,129	$ -	$ 13,129
Draws on existing loans	33,710	1,030	34,740	15,308	8,067	23,375
Net cash advances on real estate loans	34,864	1,030	35,894	28,437	8,067	36,504
Receipts on real estate loans receivable:						
Loan payoffs	450	-	450	129,860	2,943	132,803
Principal payments on loans	14,204	1,923	16,127	11,618	4,598	16,216
Total receipts on real estate loans	14,654	1,923	16,577	141,478	7,541	149,019
Net advances (receipts) on real estate loans	$ 20,210	$ (893)	$ 19,317	$ (113,041)	$ 526	$ (112,515)

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

During our third quarter loan loss evaluation, new factors arose including change in intent regarding collateral and updated appraisal that, under the circumstances, resulted in the determination to write-off $27,008,000 of loans. Additionally, at September 30, 2012, we had real estate loans with outstanding balances of $13,035,000 on non-accrual status with an allowance for loan losses of $0.

7. Investments in Unconsolidated Entities

During the year ended December 31, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located at University Park in Cambridge, Massachusetts, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. At September 30, 2012, our investment of $176,579,000 is recorded as an investment in unconsolidated entities on the balance sheet. The results of operations for these properties have been included in our consolidated results of operations from the date of acquisition by the joint venture and are reflected in our statement of comprehensive income as income from unconsolidated entities. The aggregate remaining unamortized basis difference of our investment in this joint venture of $1,791,000 at September 30, 2012 is primarily attributable to real estate and related intangible assets and will be amortized over the life of the related properties and included in the reported amount of income from unconsolidated entities.

During the quarter ended June 30, 2012, we entered into a joint venture with Chartwell Seniors Housing REIT (TSX:CSH.UN). The portfolio contains 42 properties in Canada, 39 of which are owned 50% by the company and Chartwell, and three of which the company wholly owns. In connection with the 39 properties, we invested $223,134,000 of cash which was recorded as an investment in unconsolidated entities on the balance sheet. The 39 properties are accounted for under the equity method of accounting and do not qualify as VIEs (variable interest entities). The joint venture is structured under RIDEA.

In addition, at September 30, 2012, we had other investments in unconsolidated entities with our ownership ranging from 10% to 50%.

8. Customer Concentration

The following table summarizes certain information about our customer concentration as of September 30, 2012 (dollars in thousands):

Concentration by investment:[1]	Number of Properties[2]		Total Investment[2]	Percent of Investment[3]
Genesis HealthCare Corporation	158	$	2,558,276	16%
Merrill Gardens, LLC	48		1,095,029	7%
Benchmark Senior Living	35		849,397	5%
Brandywine Senior Living, LLC	26		722,623	5%
Senior Living Communities, LLC	12		607,208	4%
Remaining portfolio	699		9,953,324	63%
Totals	978	$	15,785,857	100%

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

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

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

9. Borrowings Under Line of Credit Arrangements and Related Items

At September 30, 2012, we had a $2,000,000,000 unsecured line of credit arrangement with a consortium of 31 banks with an option to upsize the facility by up to an additional $500,000,000 through an accordion feature, allowing for the aggregate commitment of up to $2,500,000,000. The revolving credit facility is scheduled to expire July 27, 2015. Borrowings under the agreement are subject to interest payable in periods no longer than three months at either the agent bank's prime rate of interest or the applicable margin over LIBOR interest rate, at our option (1.57% at September 30, 2012). The applicable margin is based on certain of our debt ratings and was 1.35% at September 30, 2012. In addition, we pay a facility fee annually to each bank based on the bank's commitment amount. The facility fee depends on certain of our debt ratings and was 0.25% at September 30, 2012. Principal is due upon expiration of the agreement. In addition, at September 30, 2012, we had a $5,000,000 unsecured revolving demand note undrawn and bearing interest at 1-month LIBOR plus 110 basis points.

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

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Balance outstanding at quarter end	$ -	$ 390,000	$ -	$ 390,000
Maximum amount outstanding at any month end	$ 145,000	$ 390,000	$ 897,000	$ 495,000
Average amount outstanding (total of daily principal balances divided by days in period)	$ 165,000	$ 140,978	$ 255,639	$ 152,832
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	2.30%	1.61%	1.79%	1.12%

10. Senior Unsecured Notes and Secured Debt

At September 30, 2012, the annual principal payments due on consolidated debt obligations were as follows (in thousands):

	Senior Unsecured Notes(1,2)	Secured Debt (1,3)	Totals
2012	$ -	$ 9,914	$ 9,914
2013	300,000	221,368	521,368
2014	-	201,848	201,848
2015 (4)	504,143	221,295	725,438
2016	700,000	318,507	1,018,507
Thereafter	3,444,403	1,327,589	4,771,992
Totals	$ 4,948,546	$ 2,300,521	$ 7,249,067

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.
(2) Annual interest rates range from 3.0% to 6.5%, excluding the Canadian denominated unsecured term loan discussed in footnote 4.
(3) Annual interest rates range from 1.2% to 8.0%. Carrying value of the properties securing the debt totaled $5,083,684,000 at September 30,

2012.

(4) On July 30, 2012, we completed funding on a $250,000,000 Canadian denominated unsecured term loan (approximately $254,143,000 USD at exchange rates on September 30, 2012). The loan is coterminous with the unsecured revolving credit facility and matures July 27, 2015 (with an option to extend for an additional year at our discretion) and bears interest at the Canadian Dealer Offered Rate plus 145 basis points (2.65% at September 30, 2012).

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	$ 4,464,927	5.133%	$ 3,064,930	5.129%
Debt issued	600,000	4.125%	1,400,000	5.143%
Debt extinguished	(76,853)	8.000%	-	0.000%
Debt redeemed	(293,671)	4.750%	-	0.000%
Ending balance	$ 4,694,403	5.030%	$ 4,464,930	5.133%

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

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	$ 2,108,373	5.34%	$ 1,133,715	5.59%
Debt issued	145,713	4.13%	60,470	5.77%
Debt assumed	311,653	5.71%	693,797	5.40%
Debt extinguished	(237,259)	4.29%	-	0.00%
Foreign currency	288	5.62%	-	0.00%
Principal payments	(28,247)	5.35%	(20,285)	5.83%
Ending balance	$ 2,300,521	5.42%	$ 1,867,697	5.52%

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2012, we were in compliance with all of the covenants under our debt agreements.

11. Derivative Instruments

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

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

Interest Rate Swap Contracts Designated as Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income ("OCI"), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. As of September 30, 2012, we had five interest rate swaps for a total aggregate notional amount of $101,040,000. The swaps hedge interest payments associated with long-term LIBOR based borrowings and mature between December 31, 2012 and December 31, 2013. Approximately $1,974,000 of losses,

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

which are included in accumulated other comprehensive income (“AOCI”), are expected to be reclassified into earnings in the next 12 months.

Foreign Currency Hedges

On February 15, 2012, we entered into a forward exchange contract to purchase $250,000,000 Canadian Dollars at a fixed rate in the future. The forward contract was used to limit exposure to fluctuations in the Canadian Dollar to U.S. Dollar exchange rate associated with our initial cash investment funded for the Chartwell transaction. On May 3, 2012, this forward exchange contract was settled for a gain of $2,772,000 and the proceeds were used to fund our investment. On May 3, 2012, we also entered into a forward contract to sell $250,000,000 Canadian dollars at a fixed rate on July 31, 2012. We settled the forward contract on July 31, 2012 with the net loss reflected in OCI. Upon settlement of the forward contract we entered into a $250,000,000 Canadian Dollar term loan which has been designated as a net investment hedge of our Chartwell investment and changes in fair value are reported in OCI as no ineffectiveness is anticipated.

On August 30, 2012, we entered into two cross currency swaps to purchase $125,000,000 Pound Sterling. The swaps were used to limit exposure to fluctuations in the Pound Sterling to U.S. Dollar exchange rate associated with our initial cash investment funded for the Sunrise transaction discussed in Note 12. The cross currency swaps have been designated as a net investment hedge, and changes in fair value are reported in OCI as no ineffectiveness is anticipated.

On September 17, 2012, we entered into two forward exchange contracts to purchase $14,000,000 Canadian Dollars and $23,000,000 Pound Sterling at a fixed rate in the future. The forward contracts were used to limit exposure to fluctuations in foreign currency associated with the Sunrise transaction discussed in Note 12.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2012	2011	2012	2011
Gain (loss) on interest rate swap recognized in OCI (effective portion)	n/a	$ 797	$ 658	$ 2,342	$ 2,499
Gain (loss) on interest rate swaps reclassified from AOCI into income (effective portion)	Interest expense	383	467	1,204	1,440
Gain (loss) on interest rate swaps recognized in income	Realized loss	-	-	(96)	-

Gain (loss) on forward exchange contracts recognized in income (ineffective portion and amount excluded from effectiveness testing)	Unrealized loss	-	-	(555)	-
Gain (loss) on forward exchange contracts recognized in income	Realized gain (loss)	(409)	-	2,363	-
Gain (loss) on forward exchange contracts designated as net investment hedge recognized in OCI	n/a	(12,663)	-	(5,747)	-

12. Commitments and Contingencies

At September 30, 2012, we had nine outstanding letter of credit obligations totaling $7,172,000 and expiring between 2013 and 2014.

At September 30, 2012, we had outstanding construction in process of $219,705,000 for leased properties and were committed to providing additional funds of approximately $217,015,000 to complete construction. At September 30, 2012, we had contingent purchase obligations totaling $76,933,000. These contingent purchase obligations relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with Accounting Standards Codification ("ASC") Topic 840 "Leases." A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At September 30, 2012, we had operating lease obligations of

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

$528,685,000 relating to certain ground leases and company office space and capital lease obligations of $88,143,000 relating to certain investment properties. We incurred rental expense relating to company office space of $330,000 and $931,000 for the three months and nine months ended September 30, 2012, respectively, as compared to $341,000 and $1,472,000 for the same periods in 2011. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At September 30, 2012, aggregate future minimum rentals to be received under these noncancelable subleases totaled $48,514,000.

Sunrise Merger

In August 2012, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Sunrise Senior Living, Inc. (“Sunrise”), pursuant to which we agreed to acquire Sunrise in an all-cash merger (the “Merger”) in which Sunrise stockholders would receive $14.50 in cash for each share of Sunrise common stock. The total estimated purchase price of approximately $1,920,000,000 is comprised of the $950,000,000 cash consideration and $970,000,000 of assumed debt and excludes fair value and other purchase price accounting adjustments. The closing of the Merger, which is expected to occur in early 2013, is subject to the satisfaction or waiver of certain conditions, including adoption of the Merger Agreement by Sunrise's stockholders, expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Act and the completion in all material respects of certain reorganization transactions being undertaken in connection with the Management Business Sale (described below).

Subsequent to the original announcement, we, in collaboration with Sunrise, have acquired or reached agreement to acquire majority interests in certain joint venture properties, which has increased the expected purchase price to approximately $3,170,200,000, which is comprised of $664,100,000 of incremental cash consideration and $586,100,000 of incremental assumed debt. We completed the acquisition of several joint venture properties in the United Kingdom for approximately $243,474,000 of cash consideration during the three months ended September 30, 2012. Sunrise has acquired majority interests in certain other joint venture properties using proceeds from a $462,500,000 loan provided by us that funded subsequent to September 30, 2012 and will be converted to ownership by us upon completion of the Merger.

In connection with the Merger Agreement, Sunrise has agreed to sell its management business and certain additional assets and liabilities (the “Management Business Sale”) to Red Fox Management, LP (the “Management Business Buyer”). Under the Merger Agreement, the Management Business Sale is to take place immediately prior to the Merger. We will invest approximately $26,000,000 for a 20% interest in the Management Business Buyer.

All amounts relating to the Merger that have not yet closed are preliminary estimates, are subject to downward or upward adjustment, and are subject to change. Furthermore, certain of the estimated incremental Sunrise investments, including the acquisition of properties in the United Kingdom, are based on exchange rates in effect as of the time of the estimate. Our anticipated Merger may not be completed on currently anticipated terms, or within currently anticipated timeframes, or at all.

13. Stockholders’ Equity

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

	September 30, 2012	December 31, 2011
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	26,224,854	25,724,854
Outstanding shares	26,224,854	25,724,854
Common Stock, $1.00 par value:		
Authorized shares	400,000,000	400,000,000
Issued shares	259,936,105	192,604,918
Outstanding shares	259,539,955	192,275,248

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Preferred Stock. The following is a summary of our preferred stock activity during the periods indicated (dollars in thousands, except per share amounts):

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	25,724,854	7.013%	11,349,854	7.663%
Shares issued	11,500,000	6.500%	14,375,000	6.500%
Shares redeemed	(11,000,000)	7.716%	-	0.000%
Ending balance	26,224,854	6.493%	25,724,854	7.013%

During the three months ended June 30, 2012, we recognized a charge of $6,242,000 in connection with the preferred stock redemptions.

Common Stock. The following is a summary of our common stock issuances during the nine months ended September 30, 2012 and 2011 (dollars in thousands, except per share amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
March 2011 public issuance	28,750,000	$ 49.25	$ 1,415,938	$ 1,358,543
2011 Equity shelf plan issuances	743,099	50.59	37,595	36,870
2011 Dividend reinvestment plan issuances	1,869,796	48.39	90,476	89,528
2011 Option exercises	151,927	37.78	5,740	5,740
2011 Totals	31,514,822		$ 1,549,749	$ 1,490,681
February 2012 public issuance	20,700,000	$ 53.50	$ 1,107,450	$ 1,062,256
August 2012 public issuance	13,800,000	58.75	810,750	778,011
September 2012 public issuance	29,900,000	56.00	1,674,400	1,607,140
2012 Dividend reinvestment plan issuances	1,485,598	55.65	82,678	82,678
2012 Option exercises	155,195	39.61	6,147	6,147
2012 Senior note conversions	1,039,721		-	-
2012 Totals	67,080,514		$ 3,681,425	$ 3,536,232

Comprehensive Income

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

	September 30, 2012	December 31, 2011
Unrecognized losses on cash flow hedges	$ (7,423)	$ (8,561)
Unrecognized losses on equity investments	(427)	(619)
Unrecognized gains on foreign currency translation	166	-
Unrecognized actuarial losses	(2,748)	(2,748)
Totals	$ (10,432)	$ (11,928)

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Unrecognized gains on cash flow hedges	$ 414	$ 191	$ 1,138	$ 1,059
Unrecognized gains (losses) on equity investments	230	(400)	192	(314)
Unrecognized gains on foreign currency translation	2,514	-	166	-
Total other comprehensive income (loss)	3,158	(209)	1,496	745
Net income attributable to controlling interests	53,871	53,841	190,077	173,094
Comprehensive income (loss) attributable to controlling interests	57,029	53,632	191,573	173,839
Net and comprehensive income (loss) attributable to noncontrolling interests[1]	(365)	(1,488)	(2,241)	(2,721)
Total comprehensive income (loss) attributable to stockholders	$ 56,664	$ 52,144	$ 189,332	$ 171,118

(1) Includes amounts attributable to redeemable noncontrolling interests.

14. Stock Incentive Plans

Our Amended and Restated 2005 Long-Term Incentive Plan authorizes up to 6,200,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. The 2005 Plan replaced the 1995 Stock Incentive Plan and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan continued to vest through 2010 and expire ten years from the date of grant. Our non-employee directors, officers and key employees are eligible to participate in the 2005 Plan. The 2005 Plan allows for the issuance of, among other things, stock options, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three years for non-employee directors to five years for officers and key employees. Options expire ten years from the date of grant. Stock-based compensation expense totaled $2,592,000 and $ 16,229,000 for the three and nine months ended September 30, 2012 and $1,767,000 and $ 9,041,000 for the three and nine months ended in September 30, 2011. The increase is primarily attributable to the impact of special non-cash retention and performance based stock awards for executive officers.

15. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator for basic and diluted earnings per share - net income (loss) attributable to common stockholders	$ 37,269	$ 36,607	$ 131,308	$ 129,826
Denominator for basic earnings per share - weighted average shares	224,391	177,272	212,592	169,636
Effect of dilutive securities:				
Employee stock options	238	172	240	180
Non-vested restricted shares	301	258	293	241
Convertible senior unsecured notes	1,328	147	950	244
Dilutive potential common shares	1,867	577	1,483	665
Denominator for diluted earnings per share - adjusted weighted average shares	226,258	177,849	214,075	170,301
Basic earnings per share	$ 0.17	$ 0.21	$ 0.62	$ 0.77
Diluted earnings per share	$ 0.16	$ 0.21	$ 0.61	$ 0.76

The diluted earnings per share calculations exclude the dilutive effect of 237,000 and 227,000 stock options for the three months ended September 30, 2012 and 2011, respectively, and 0 and 381,000 for the nine months ended because the exercise prices were

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

more than the average market price. The Series H Cumulative Convertible and Redeemable Preferred Stock and Series I Cumulative Convertible Perpetual Preferred Stock were not included in the calculations as the effect of conversions into common stock was anti-dilutive.

16. Disclosure about Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Mortgage loans receivable	$ 61,591	$ 63,647	$ 63,934	$ 64,194
Other real estate loans receivable	223,317	231,388	228,573	231,308
Available-for-sale equity investments	1,172	1,172	980	980
Cash and cash equivalents	1,382,252	1,382,252	163,482	163,482
Financial liabilities:				
Borrowings under unsecured line of credit arrangements	$ -	$ -	$ 610,000	$ 610,000
Senior unsecured notes	4,921,712			